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MORTGAGE TAX CREDIT

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 1598

SEPTEMBER 13, 1983

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MORTGAGE TAX CREDIT

TUESDAY, SEPTEMBER 13, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:03 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole and Mitchell.

[The press release announcing the hearing, the description of S. 1598 by the Joint Committee or Taxation, and the prepared statements of Senators Dole and Mitchell follow:]

[Press Release]

FINANCE COMMITTEE SETS HEARING ON S. 1598, MORTGAGE TAX CREDIT BILL

Senator Robert J. Dole, Chairman of the Senate Committee on Finance, today announced that a hearing will be held on S. 1598, the First Time Homebuyer Assistance Act, on Tuesday, September 13, 1983.

The hearing will occur at 10:00 a.m. in room SD-215 of the Dirksen Senate Office Building.

S. 1598, introduced by Senators Dole, Long, Domenici, Bradley, Tower, Wallop, and Heinz on July 12, 1983, would create a new housing assistance mechanism for State and local governments that could be used instead of mortgage subsidy bonds. Under the bill, State and local governments could "trade in" some or all of their annual bond authority in exchange for certificates that would entitle homebuyers to effectively reduce market interest rates by claiming a Federal tax credit for a portion of their mortgage interest payments.

In announcing the hearing Senator Dole stated, "Mortgage credit programs could be established under this bill that would have all of the benefits of existing mortgage bond loan programs. In addition, to the extent the option afforded by the bill is utilized, homebuyers will receive 10 percent more assistance, and the U.S. Treasury will save 20 to 40 percent of the cost. The bill would also make low-income housing assistance more feasible by permitting deeper interest rate subsidies than those typically provided by mortgage subsidy loans."

STATEMENT OF SENATOR DOLE

INTRODUCTION

The Finance Committee will today hear testimony on S. 1598, the First Time Homebuyers Assistance Act of 1983. This bill, introduced by myself and Senators Long, Domenici, Bradley, Tower, Wallop and Heinz, takes an innovative, but long overdue approach to assisting State and local governments, the home building and real estate industries, and first time homebuyers. All of these groups were hurt by the record high interest rates experienced prior to the current recovery. They all could be threatened again if record Federal deficits, in a period of robust recovery, drive interest rates above the so-called "choke point" for prospective home purchasers.

Ironically, one of the most popular remedies for the malady of high-interest rates has been, in the view of many experts, akin to the once popular medical practice of blood letting.

Although mortgage subsidy bonds unquestionably have been beneficial for some homebuyers, realtors, home builders, and State and local officials interested in providing those groups with Federal financial assistance, the cost to the Federal Treasury and the impact of traditional State and local borrowing costs have been simply excessive. If large Federal deficits cause problems for State and local governments and the home building industry, and if Congress is committed to finding a way to help first-time homebuyers, then Congress should endeavor to subsidize home purchases with the most efficient subsidy mechanism possible. S. 1598 is intended to move national tax and housing policy in precisely that direction, by giving State and local mortgage bond issuers the option of exchanging some or all of their mortgage bond authority, for authority to issue tax credit certificates that will effectively reduce the interest rates on market rate loans.

I believe there are substantial incentives to switch from issuing bonds to issuing credits under this bill. And for every dollar exchanged, substantial revenues will be saved. According to the Joint Tax Committee revenue estimates, with credit usage starting at 20 percent, and rising to 60 percent over the next five fiscal years, we will recoup half a million dollars. With more usage, still more could be saved.

HOW CREDITS WOULD WORK

Under the mortage bond law, each State is permitted to issue an amount of mortgage bonds each year, referred to as the State's applicable limit. Within each State, the applicable limit is apportioned among State and local authorities. Under this bill, any State or local agencies authorized to issue an amount of mortgage bonds could elect to forego issuing some or all of the bond allotment for any calendar year and instead issue mortgage credit certificates directly to homebuyers. Each mortgage credit certificate would enable a homebuyer to obtain a nonsubsidized mortgage loan from a lender or developer, and then claim a Federal tax credit for a specified percentage of his mortgage interest payments. In this way, the interest rate on a market rate mortgage loan would be reduced or bought down with the tax credit. Since the credit would be available as long as the homebuyer retained the mortgage on his home, the subsidy provided by the annual tax credit would be indistinguishable from the subsidy provided by a mortgage loan obtained through a tax-exempt mortgage subsidy bond.

ADVANTAGES OF CREDITS

The advantages of credits, over bonds, accrue to almost all currently involved in the mortgage bond program. Bond underwriters and wealthy bond investors, of course, may not directly benefit from use of tax credits, but they will certainly benefit indirectly as citizens concerned with lowering Federal deficits.

States and localities will benefit from a reduced level of tax-exempt borrowing, and greater flexibility in providing subsidies to those who most need assistance.

Homebuyers and the homebuilding industry will benefit from what we estimate is a 10 percent increase in the amount of subsidy going to the homebuyer, and the possibility of far deeper subsidies than is possible with mortgage bonds. They also will benefit from the more certain countercyclical advantages of credits, which need not be locked-in to the interest rate applicable at the time of a given bond issue.

Finally, the Federal Government will benefit from a lower deficit, attributable to greater efficiency in providing Federal financial assistance to homebuyers.

I look forward to hearing the testimony of our distinguished witnesses.

STATEMENT BY SENATOR GEORGE J. MITCHELL

Mr. Chairman, I am pleased to attend this hearing which has been called to receive testimony on legislation which you introduced, S. 1598, the First Time Homebuyer Assistance Act. I would like to commend you for your interest in and concern for the number of families who rely on some form of assistance to realize their dream of home ownership.

As we all know, the housing industry in its totality forms an important part of our national economy. Yet, it is considerably disadvantaged by its sensitivity to interest rates. During the last recession, we witnessed a decline in home construction and home sales that has been unequalled in the post-war period. Housing starts plummeted to one million last year, unemployment topped ten percent, and mortgage rates have remained stubbornly in the double digits. We saw an ameliorgation of those conditions earlier this year as the recovery has gotten under way. However, that recovery is now threatened by interest rates which rose two full percentage points this summer. At the same time, housing starts fell and new home sales dropped 6.5 percent in July. These difficulties are perhaps reflected in the recent, troubling observation of the Census Bureau that the percentage of homeowners in this country has declined for the first time since the Great Depression.

As the housing industry has suffered from the swings in the economy, its support at the federal level has been sharply undermined. The share of the federal budget allocated to housing programs has dropped from 5.2 percent in fiscal 1980 to less than 1 percent in the fiscal year that begins on October 1st. That amounts to a decline of 84 percent.

Yet, throughout this difficult period, the housing industry and first time home buyers have been sustained to some degree by mortgage revenue bonds. The mortgage revenue bond program has proven to be an effective vehicle for providing affordable housing for many thousands of families. And, during periods of recession and high interest rates such as we have experienced, it functions as a countercyclical tool, often providing the only affordable source of mortgage capital.

I support this program as a viable means of providing mortgage credit and continue to call for the repeal of the December, 1983, sunset date. I am gratified that three quarters of the members of the House and Senate agree with me.

While the mortgage revenue bond program has in my opinion proven its worth, I recognize that it may not be the only way of supplying housing for first time home buyers of low and moderate income. To that end, I view the legislation before us today with an open mind. It assumes the extension of mortgage revenue bonds and would permit state and local governments to exchange all or part of their bond authority for authority to issue mortgage credit certificates, subject to the same eligibility requirements as the bond program. Its strength is that it suggests a continuing role for such agencies which have been singularly successful in the last decade in delivering various forms of housing assistance.

However, S. 1598 is not flawless. And, it should not be considered a substitute for repeal of the sunset date on mortgage revenue bonds.

One of the fundamental differences between the two programs is that mortgage credit certificates do not represent a source of home financing. Rather, they assume the availability and affordability of mortgage capital. Questions arise as to whether such capital will exist in all circumstances, such as during periods of volatile interest rates when some lenders withdraw from the market, or in certain geographical areas such as inner cities and rural areas. My own state of Maine is largely rural in nature and has insufficient capital to permit significant development. Credit is hard to come by in those areas even in the best of times.

I also question whether lenders would take the tax credit into account in judging the credit-worthiness of eligible families and whether any other mechanisms, such as permitting access to the secondary mortgage market, would be necessary to complement mortgage credit certificates.

Other issues arise as to the administration of the program. Who will ensure that the eligibility requirements are met? Lenders? State and local governments? The borrowers themselves? And who will finance the cost of program administration?

The transition rules proposed for the phase-in of mortgage credit certificates would appear to penalize state and local governments for giving up part of their mortgage bond authority. Would a modification of the rules give those units of government a greater incentive to utilize the new credit mechanism?

Another question which presents itself is whether the tax credit level should be raised to approximate the benefits of mortgage revenue bonds. The 14.35 percent level recommended in the bill is significantly less than the 20 percent interest rate reduction which mortgage revenue bonds have been found to provide.

Finally, will the First Time Homebuyer Assistance Act be more efficient than mortgage revenue bonds? While there are claims that it will reduce revenue losses to the federal government and alleviate pressure on tax-exempt interest rates, there is dispute as to the validity of the General Accounting Office report which concluded that a bond-financed program in 1982 would cost four times as much in federal savings as the benefits provided to home buyers. That report was aired in a hearing held before this committee earlier this year during which it was criticized both for the methodology used to estimate revenue losses and the period studied by it which had abnormally high interest rates. I hope today's session will shed more light on the comparative efficiencies of both financing mechanisms.

In conclusion, Mr. Chairman, I am pleased to consider the legislation which you have sponsored and look forward to hearing the testimony to be presented today. At the same time, however, I must reiterate my support for the mortgage revenue bond program and urge the prompt repeal of the sunset date so that state and local housing authorities can continue utilizing this effective tool for home purchase, home improvement, and rental housing.

DESCRIPTION OF S. 1598 (THE FIRST TIME HOMEBUYER ASSISTANCE ACT OF 1983)

Scheduled for a Hearing

before the

COMMITTEE ON FINANCE

on September 13, 1983

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The Senate Committee on Finance has scheduled a public hearing on September 13, 1983, on S. 1598 ("The First Time Homebuyer Assistance Act of 1983"), introduced by Senators Dole, Long, Domenici, Bradley, Wallop, Tower, and Heinz. The bill relates to the authority of State and local governments to issue qualified mortgage credit certificates.

The first part of the pamphlet is a summary of the bill. This is followed by a more detailed description of the bill, including present law, issues, explanation of provisions, and effective date.

I. SUMMARY

The Mortgage Subsidy Bond Tax Act of 1980 (the "1980 Act") imposed restrictions on the ability of State and local governments to issue tax-exempt bonds to finance owner-occupied residences. The 1980 Act provides that interest on mortgage subsidy bonds is exempt from taxation only if the bonds are "qualified mortgage bonds" or "qualified veterans' mortgage bonds". The 1980 Act restricts the aggregate annual volume of qualified mortgage bonds which a State, and local governments within the State, may issue. Qualified mortgage bonds must satisfy a number of additional requirements, including a requirement that the bonds be issued before January 1, 1984.

The bill (S. 1598) would allow State and local governments to elect, for any year, to exchange all or part of their qualified mortgage bond authority for authority to issue qualified mortgage credit certificates (MCCs). MCCs would entitle homeowners to refundable credits not exceeding 50 percent (but not less than 10 percent) of mortgage interest on qualifying principal residences. The credits would be subject to the existing eligibility requirements for qualified mortgage bonds.

The total amount of MCCs distributable by a State or local government would be equal to 14.35 percent of the amount of exchanged mortgage subsidy bond authority. For States and localities which issued less than their full authorized volume of mortgage subsidy bonds in 1983, the authority to issue MCCs would be phased in over a 5-year period.

Under the bill, MCCs could be distributed only following the announcement by the State or local government, at least 90 days before distribution, of a proposed plan of distribution.

The bill does not extend the authority to issue qualified mortgage bonds, although it assumes some such extension.

II. DESCRIPTION OF THE BILL

A. Present Law

Overview

The Mortgage Subsidy Bond Tax Act of 1980 (the "1980 Act")[1] imposed restrictions on the ability of State or local governments to issue bonds, the interest on which is tax-exempt, for the purpose of making mortgage loans on single-family residences. The 1980 Act provides that interest on mortgage subsidy bonds is exempt from taxation only if the bonds are "qualified mortgage bonds" or "qualified veterans' mortgage bonds".

Qualified veterans' mortgage bonds

Qualified veterans' mortgage bonds are general obligation bonds, the proceeds of which are used to finance mortgage loans to veterans. Unlike qualified mortgage bonds, the tax-exemption for veterans' bonds does not expire after December 31, 1983.

Qualified mortgage bonds

Qualified mortgage bonds must satisfy numerous requirements, discussed below. In addition, interest on these bonds is tax-exempt only if the bonds are issued before January 1, 1984.[2]

Volume limitations

The 1980 Act restricts the aggregate annual volume of qualified mortgage bonds that a State, and local governments within the State, can issue. The State ceiling is equal to the greater of (1) 9 percent of the average annual aggregate principal amount of mortgages executed during the 3 preceding years for single-family owner-occupied residences located within the State, or (2) $200 million.

Limitation to single-family, owner-occupied residences

All proceeds (except issuance costs and reasonably required reserves) of qualified mortgage bonds must be used to finance the purchase of single-family residences located within the jurisdiction of the issuing authority. Additionally, it must reasonably be expected that each residence will become the principal residence of the mortgagor within a reasonable time after the financing is provided. Generally, the term single-family residence includes 2-, 3-, and 4-family residences if (1) the units in the residence were first occupied at least 5 years before the mortgage is executed and (2) one unit in the residence is occupied by the owner of the units.

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[1] Title XI of the Omnibus Reconciliation Act of 1980 (Pub. L. 96-499). The provisions of this Act (i.e., Code sec. 103A) were subsequently amended by section 220 of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)(Pub. L. 97-248).

[2] S. 137 (introduced by Senators Roth, Mitchell, Durenberger, Danforth, Packwood, Wallop, and others) would make permanent the tax exemption presently provided for qualified mortgage bonds. A hearing on this bill was held by the Senate Committee on Finance on May 13, 1983. (For a description of S. 137, see Joint Committee staff pamphlet, "Description of Tax Bills (S. 137 and S. 1061) Relating to Mortgage Subsidy Bonds and Federal Guarantee of Tax-Exempt Bond Investments," JCS-12-83, May 12, 1983.

H.R. 2973, as approved by the Senate on June 16, 1983, would likewise have made permanent the present law tax exemption for qualified mortgage bonds. However, that provision was subsequently deleted in conference (P.L. 98-67).

General limitation to new mortgages

With certain exceptions, all proceeds of qualified mortgage bonds must be used for the acquisition of new mortgages rather than existing mortgages. Exceptions are provided that permit replacement of construction period loans and other temporary initial financing, and certain rehabilitation loans. Rehabilitation loans must be made for work begun at least 20 years after the residence is first used and the expenditures must equal 25 percent or more of the mortgagor's adjusted basis in the building. Additionally, at least 75 percent of the existing external walls of the building must be retained as such after the rehabilitation.

Certain mortgage assumptions permitted

Loans financed by qualified mortgage bond proceeds may be assumed if the residence satisfies the location and principal residence requirements, discussed above, and the assuming mortgagor satisfies the 3-year and purchase price requirements, discussed below.

Limitation on advance refunding

Qualified mortgage bonds may not be advance refunded.

Targeting requirement

At least 20 percent of the proceeds of each issue must be made available for owner-financing in "targeted areas" for a period of at least one year. The term targeted area means a census tract in which 70 percent or more of the families have income which is 80 percent or less of the statewide median family income, or an area designated as an area of chronic economic distress.

3-year requirement

In order for an issue to be a qualified mortgage issue, at least 90 percent of the mortgages financed from the bond proceeds are required to be provided to mortgagors, each of whom did not have a present ownership interest in a principal residence at any time during the 3-year period ending on the date the mortgage is granted. The 3-year requirement does not apply with respect to mortgagors of residences in three situations: (1) mortgagors of residences that are located in targeted areas; (2) mortgagors who receive qualified home improvement loans;[3] and (3) mortgagors who receive qualified rehabilitation loans.

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[3] Qualified home improvement loans are loans, not exceeding $15,000, that finance the alteration or repair of a residence in a manner that substantially protects "the basic livability or energy efficiency of the property" (sec. 103A(l)(6)).

Purchase price requirement

In order for an issue to be a qualified mortgage issue, all of the mortgages (or other financing) provided from the bond proceeds, except qualified home improvement loans, are required to be for the purchase of residences the acquisition cost of which does not exceed 110 percent (120 percent in targeted areas) of the average area purchase price applicable to that residence.

Arbitrage requirements

In order for an issue to be a qualified mortgage issue, the issue is required to meet certain limitations regarding arbitrage as to both mortgage loans and nonmortgage investments. The effective rate of interest on mortgages provided under an issue of qualified mortgage bonds (determined on a composite basis) may not exceed the yield on the issue by more than 1.125 percentage points. The 1980 Act also imposes restrictions on the arbitrage permitted to be earned on nonmortgage investments and requires that any arbitrage on nonmortgage investments must be paid or credited to the mortgagors or paid to the Federal Government.

B. Issues

The principal issue is whether State and local goverments should be entitled to exchange all or part of their qualified mortgage bond authority for authority to issue mortgage credit certificates. Related issues include:

First, what is the relative efficiency and effectiveness of mortgage credit certificates and mortgage subsidy bonds as a means of providing a subsidy to first time homebuyers?

Second, which type of program (mortgage credit certificates or mortgage subsidy bonds) is better suited to the purpose of targeting the available subsidy to those individuals who are most in need of assistance?

C. Explanation of Provisions

Overview

The bill would allow State and local governments to elect, for any calendar year beginning after 1983,[4] to exchange all or part of their qualified mortgage bond authority for authority to issue qualified mortgage credit certificates (MCCs). MCCs would entitle taxpayers to refundable Federal income tax credits for not more than 50 percent (but not less than 10 percent) of interest on indebtedness incurred to finance the acquisition (or qualified rehabilitation or improvement) of qualified principal residences. The credits would be subject to the existing eligibility requirements for qualified mortgage bonds. For States and localities which issued less than their statutory maximum of qualified mortgage bonds during calendar year 1983, authority to issue MCCs would be phased in over a 5-year period.

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[4] Under present law, the authority to issue qualified mortgage bonds will expire on December 31, 1983 (see Part A, Present Law, above). Thus, in order for the MCC program to take effect, Congress would have to extend the availability of qualified mortgage bonds beyond the 1983 sunset.

Qualified mortgage credit certificates (MCCs)

Qualified mortgage credit certificates (MCCs) would take the form of certificates issued to qualifying homebuyers. Each certificate would specify (1) the principal amount of indebtedness the interest on which qualified for the credit and (2) the applicable percentage of the credit. The applicable percentage could not exceed 50 percent, but could not be less than 10 percent, of interest on the qualifying indebtedness. (The actual amount of the credit in any year would depend upon the mortgage interest rate.) The certificate would entitle the taxpayer to a credit against his or her Federal income taxes for a taxable year during which the taxpayer used the residence as his or her principal residence during that taxable year.

MCCs would be refundable to the taxpayer (i.e., credit amounts in excess of any Federal income taxes would be refunded to the taxpayer). However, when a taxpayer received an MCC, the taxpayer's deduction for interest on the qualifying mortgage (sec. 163(a)) would be reduced by the amount of the credit. For example, a taxpayer receiving a 50-percent credit, and making $1,000 of interest payments in a given year, would receive a $500 credit and a deduction for the remaining $500 of interest payments.

Under the bill, MCCs would not be available for property financed with mortgage subsidy bonds. Additionally, loans between related parties would not qualify for the credit.

Criteria for eligibility

MCCs would be subject to the existing eligibility requirements applicable to qualified mortgage bonds. Thus, MCCs would generally (1) be limited to interest on mortgage loans for single-family owner occupied residences (as defined under the qualified mortgage bond provisions) located within the jurisdiction of the issuing authority, (2) be available only for new mortgages (with allowances for qualified rehabilitation and improvement loans and for certain mortgage assumptions), and (3) be available to finance the acquisition of residences the acquisition cost of which does not exceed 110 percent (120 percent in targeted areas) of the average area purchase price applicable to the residence. Additionally, 90 percent of MCCs distributed under each MCC program[5] would be required to be made available only to mortgagors who did not have a present ownership interest in a principal residence at any time during the 3-year period ending on the date the mortgage is granted (with exceptions for qualified rehabilitation and home improvement loans and residences located in targeted areas). Finally, at least 20 percent of the aggregate amount of MCCs issued under each program would be required to be made available for financing in targeted areas for a period of at least one year.

Under the bill, MCCs could be issued for debt incurred to refinance a principal residence if the refinancing takes the place of an existing mortgage for which a certificate has already been issued and does not extend the term or increase the principal amount of the original mortgage.

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[5] A State or locality could have more than one MCC program in each year (subject to the aggregate volume limitations on MCCs).

As in the case of qualified mortgage bonds, a State or locality would be free to establish more stringent criteria for participation in an MCC program.

Volume limitations

General limits

Under the bill, the aggregate annual amount of MCCs distributable by a State or locality could not exceed 14.35 percent of the volume of qualified mortgage bond authority exchanged by the State or locality. For example, a State which was entitled to issue $200 million of qualified mortgage bonds, and which elected to surrender $100 million of bond authority, could distribute an aggregate amount of MCCs not exceeding $14.35 million.

The aggregate annual amount of MCCs issued by a State or locality would be determined by multiplying (1) the principal amount of each MCC certificate issued by the State or locality by (2) the applicable percentage for each certificate, and adding the products. For example, a State with $14.35 million of MCC authority could distribute credits for 14.35 percent of the interest payments on mortgages having an aggregate principal amount of $100 million (thereby approximating the benefits provided by $100 million of mortgage subsidy bonds). However, the State could also issue any other mix of higher or lower percentage credits in an aggregate amount not exceeding $14.35 million (subject to the 10 -and 50-percent requirements and the targeting and purchase price requirements applicable to mortgage subsidy bonds).

Phase-in of MCC authority

States or localities which issued qualified mortgage bonds in amounts less than their maximum legal authority during calendar year 1983, would be subject to a 5-year phase-in of authority to issue MCCs. For each of these years, the amount of qualified mortgage bond authority which a State or locality could exchange for authority to issue MCCs would be limited to the volume of qualified mortgage bonds it actually issued in 1983, increased for each year by 25 percent of the remaining difference between the 1983 volume and the statutory amount. For example, a State which had authority to issue $200 million of qualified mortgage bonds in 1983, but actually issued only $100 million, would be entitled to exchange $125 million of authority in 1984 ($100 million plus 25 percent of the remaining statutory authority), $144 million in 1985 ($125 million plus 25 percent of authority remaining in 1984), $158 million in 1986, $167 million in 1987, $175 million in 1988, and the full $200 million in 1989.[6]

Where a State or locality issued both qualified mortgage bonds and MCCs, the phase-in would apply to the total amount of bonds and credits which it could issue. Thus, in the example above, the State (if it elected to issue MCCs) could use or exchange a total of $144 million of qualified mortgage bond authority in 1985. The phase-in would not apply if the State elected to issue only mortgage bonds.

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[6] The phase-in rule would apply regardless of the amount of authority actually exercised by a State or locality in any intervening year. Thus, in the example, the State could exchange $144 million of bond authority in 1985 for authority to issue MCCs regardless of the actual volume of its 1984 issues.

Public reporting requirement

Under the bill, State or local housing agencies could issue MCCs only after making generally available, at least 90 days prior to distribution, a proposed plan of distribution of the credits. The proposed plan would set forth the eligibility requirements to receive MCC certificates and the methods by which the certificates would be issued.

E. Effective Date

The bill would apply to interest paid or accrued after December 31, 1983, on mortgages executed after December 31, 1983.

The CHAIRMAN. Let me say, just as a way of introduction, we certainly welcome the witnesses. I'm advised that there may not be other Senators here, so I'm going to ask the cooperation of witnesses. I had an opportunity last evening to look through all the statements, and I'm going to ask those who are going to testify to summarize their statements; not to read their statements. I have already read them. And if I'm the only one here, and if you have read them, and I have read them, you know, let's don't read them again.

So if you can summarize in 1 minute or 2. We believe that we have an initiative here that deserves serious consideration. It has broad support. Senators Long and myself, Domenici, Bradley, Tower, Wallop, and Heinz, and a number of others who have indicated an interest since the introduction.

We think it's an innovative but long overdue approach to assisting State and local governments to homebuilding and real estate industries, and first time home buyers primarily. All of these groups were hurt by the record high interest rates experienced prior to the current recovery. They all could be threatened if the record Federal deficits in a period of robust recovery drive interest rates above the so-called chokepoint for prospective home purchasers. And I must say I am less and less encouraged that we are going to do anything about the deficits, so I think this is an area that should be addressed.

Ironically, one of the most popular remedies for the malady of high interest rates has been in the view of many experts akin to the once popular medical practice of bloodletting. Although mortgage subsidy bonds have been beneficial for some home buyers, realtors, homebuilders, and State and local officials, interested in providing those groups with Federal financial assistance, the cost to the Federal Treasury and the impact on traditional State and local borrowing costs have been simply excessive. If large Federal deficits cause problems for State and local governments and the homebuilding industry, and if Congress is committed to finding a way to help first time home buyers, then Congress should endeavor to subsidize home purchases with the most efficient subsidy mechanism possible.

S. 1598 is intended to move national tax and housing policy in precisely that direction by giving State and local mortgage bond issuers the option of exchanging some or all of their mortgage bond authority for authority to issue tax credit certificates that will effectively reduce the interest rates on market rate loans.

I think there is substantial incentives to switch from issuing bonds to issuing credits under this bill. And for every dollar exchanged, substantial revenues will be saved. According to the Joint Tax Committee revenue estimates with credit usage starting at 20 percent and rising to 60 percent over the next 5 fiscal years, we will recoup half a billion dollars. With more usage, still more could be saved.

I have in my statement some of the advantages and how the credits work. It just seems to me that we have an opportunity here—and I know there are some who would like to maintain both programs. And I would just say to those well-intentioned folks who are going to be testifying—we've got a problem in this country. It's called the deficit. And everybody is willing to wait until after the election except some of us who don't think that's very good policy. And it's my hope that there will be some cooperation. If everybody comes in with a little bit of greed, we are going to be probably suffering from high interest rates, if not next year, in 1985, and then most of the witnesses here who depend on lower rates for a livelihood are going to be in real difficulties.

So I'm still of the hope that there are enough of us in Congress in both parties to face up to the deficits before the election. And what you are saying is really before August or September 1985. And I don't think anybody in the homebuilding business or the real estate business or any other business will suggest that we are not flirting with high interest rates and choking off the recovery, and choking off your profit margins to your members if we don't do what we should do in the Congress with a balanced spending reduction and revenue package. So it's my hope that even though we are having hearings on some specific legislation, that we haven't lost sight of the need for facing up to the deficit.

Mr. Chapoton.

STATEMENT OF HON. JOHN E. CHAPOTON, ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY, WASHINGTON, D.C.

Secretary CHAPOTON. Thank you, Mr. Chairman.

I'm delighted to be here and to have the opportunity to present the administration's position on this bill, S. 1598. As you know, of course, the authority to issue mortgage subsidy bonds expires at the end of this year. And, therefore, this bill would be effective only if that sunset is extended.

As you know, the Treasury Department strongly opposes any extension of the MSB program. But if that program is continued over our objections, we would support the approach of giving State and local governments the option of providing Federal subsidies for mortgage interest payments, such as this bill would do.

Basically, S. 1598 would allow State and local governments to elect to exchange all or a portion of their MSB authority for authority to issue mortgage credit certificates. The taxpayer homeowner who receives a mortgage credit certificate would be entitled to a credit against his tax liability, equal to a percentage of his mortgage interest payment. The percentage would be determined by the State or local government issuer. And it could vary from 10 to 50 percent.

The credit would be refundable in the event the taxpayer didn't have enough tax liability to fully utilize the credit, and the credit would offset dollar for dollar his deduction for interest paid under section 163.

The eligibility requirements for mortgage credit certificates—that is, the homeowners who could benefit under this program or those requirements—would be identical to the present MSB program.

The annual amount is as, of course, you know, under the present MSB program there is an aggregate volume limit each year. And there would be a translation of, under this bill—a translation of the dollar caps to similar caps under mortgages that could qualify for the credit.

Basically, the certificates, the mortgage credit certificates, would provide the homeowner with a credit of 14.35 percent of the interest he pays. That is, assuming the authority elects a dollar for dollar conversion of its—the issuing authority elects a dollar for dollar conversion of its MSB authority into mortgages eligible for the credits. But to give issuers greater flexibility, the bill would allow the issuer to provide a greater or lesser credit than 14.35 percent of his interest paid by making a corresponding adjustment to the MSB authority that the issuer so remedies.

In May of this year, Mr. Chairman, we testified before the Subcommittee on Taxation and Debt Management on S. 137, which would extend or remove the sunset date on MSB's. In that testimony we strongly opposed any extension of the sunset. We still feel that way, and still oppose extension of the sunset.

I don't want to go in any detail through our reasons, but let me just tick them off.

We first feel that the MSB program is not a cost effective way to subsidize owner occupied housing. At least one-third of the cost of the program inures to bondholders and intermediaries, and not to the homeowner.

Second, we think it does damage to the tax-exempt market to flood the market with mortgage subsidy bonds. Therefore, causing a substantial increase in interest costs to State and local governments for their traditional financing.

And, finally, we think there is a significant cost to the Federal Government. A 1-year extension of the MSB program would cause a $4 billion revenue loss over the life of the bonds issued during that 1-year extension. A 3-year extension would cost $15 billion total revenue loss.

If the sunset is extended, we would support, as I have stated, the alternative of giving the issuing authorities the right to issue tax credits. There are several advantages we see. The primary advantage, though, is that mortgage credits over MSB's are much more cost effective a program. The tax credits would bypass the intermediaries who now reap a substantial profit from the MSB program so you could provide the same benefit to homeowners at a substantially reduced cost to the Federal Government. And at this time, the budget deficit problem that we are facing, as the chairman pointed out, we think we should search for more cost effective means of providing benefits.

I do give an example in the testimony, but I won't go over it now. But, basically, under the facts there assumed, the cost to the Federal Government providing the same benefit to a homeowner is—it results in a 50-percent savings. That wouldn't be true in every case. But those assumptions are very reasonable.

As I had mentioned, we estimated that a cost of a permanent extension of MSB's would be $3.2 billion over the next 5 years. You could look beyond those 5 years, and the cost would be substantially more because the bonds issued during the 5-year period are going to be outstanding beyond the end of the century.

We estimate that the cost of extending the program through mortgage credits could reduce the cost of extension of this benefit to homeowners by $600 billion. That is, from $3.2 to $2.6 billion through the mortgage credit certificate program as contrasted with the MSB program. And the long-term savings would be sustantially more.

A second major advantage of the credit program is that the amount of the subsidy would be established directly, and would not depend upon conditions in the volatile tax exempt market. Basically, under the MSB program the amount of the subsidy depends on the spread from time to time between taxable and tax exempt rates, a very arbitrary item. But that tells you how much of the benefit goes to the homeowners, and it is volatile, and certainly adds an undesirable element to the MSB program.

A third advantage to the subsidy, to the credit certificate program, is that it would not add to the outstanding volume of tax exempt bonds. Thus, would not do further damage to the tax exempt market.

A final advantage is that you would not have to—the issuer would not have to establish a reserve fund to service their mortgage subsidy bonds. Reserve funds are necessary to tax exempt financing since the issuing authority is acting as a financial intermediary. But amounts set aside in reserve fund reduces the proceeds of MSB's that are available for mortgages. That problem would not exist through the credit certificate approach.

We do have an objection, a strong objection, to one part of the mortgage credit certificate program. And that is the refundability feature of it. As we have pointed out before, we think the primary purpose of the Tax Code has to be to raise revenues. We think we jeopardize the fundamental nature of the tax law if credits become refundable. We think this objection outweighs any benefit that could be achieved through a refundable credit.

We, of course, realize what the purpose of a refundable credit is. We run into the problem every time we give credits in the tax codes. We run into the problem of taxpayers who cannot utilize those credits. But in this case, that problem is not as significant as it usually is because we estimate over 90 percent, probably as high as 95 percent, of the homeowners would have sufficient tax liability to fully absorb the credit.

I have other comments in the testimony, Mr. Chairman, regarding some administrative problems that we would like to work with the committee on. And then, finally, I do point out in our statement that the committee should consider the cost of any extension of benefits to homeowners. And we would suggest that the committee try to make this change, if it sees fit to extend benefits, revenue neutral, by limiting the volume of MSB's, and perhaps putting a limit on other private purpose tax exempt bonds so that the overall cost to the Federal Government is not increased.

And, finally, we do also suggest that if it is added that there should be a sunset on the credit mechanism as well as a sunset on any extension or removal of the December 31 date.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. And your entire statement will be made a part of the record.

[The prepared statement of Mr. Chapoton follows:]

For Release Upon Delivery
Expected at 10:00 a.m. EDT
September 13, 1983

STATEMENT OF
THE HONORABLE JOHN E. CHAPOTON
ASSISTANT SECRETARY (TAX POLICY)
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to present the views of the Treasury Department on S. 1598, the "First Time Homebuyer Assistance Act of 1983," a bill that would permit State and local governments to issue mortgage credit certificates entitling homeowners to Federal tax credits in lieu of financing low interest mortgage loans through tax-exempt mortgage subsidy bonds.

The authority for States to issue tax-exempt mortgage subsidy bonds ("MSBs") is scheduled to expire at the end of this year. Thus, S. 1598 would be effective only if the MSB program is extended. The Treasury Department strongly opposes any extension of the MSB program. If the program is continued over our objections, we support the approach of giving State and local governments the option of providing Federal subsidies for mortgage interest payments by distributing mortgage interest tax credits in lieu of issuing MSBs. In addition to commenting on

S. 1598, I also want to take the opportunity today to discuss the need for Congress to consider changes that would reduce the cost of the MSB program if it is extended.

Background

In general, MSBs are obligations the proceeds of which are used to finance owner-occupied single-family residences. Under current law, an MSB is tax-exempt only if it meets the requirements set forth in section 103A of the Internal Revenue Code. At least 90 percent of the lendable proceeds of the bond issue must be used to finance the residences of individuals who have not had a prior ownership interest in a principal residence at any time during the immediately preceding three years ("first-time homebuyer requirement"). In addition, the acquisition cost of an eligible residence cannot exceed 110 percent of the average purchase price for single-family residences in the area in which the residence is located.

For residences located in certain "targeted areas", the first-time homebuyer requirement is waived, and the purchase price limitation is increased to 120 percent of the average area purchase price. A targeted area is defined to include a "qualified census tract" or an "area of chronic economic distress." A qualified census tract is a census tract in which at least 70 percent of the families have an income that is 80 percent or less than the statewide median family income. An area of chronic economic distress is an area so designated by a State and approved by the Secretary of Housing and Urban Development and the Secretary of the Treasury in accordance with four criteria. The criteria relate to the condition of the housing stock, the need for subsidized owner-financing, its potential for improving housing conditions, and the existence of a housing assistance plan.

Current law also imposes a limit on the aggregate amount of tax-exempt MSBs that can be issued within any State during a calendar year. The volume limitation is equal to the greater of $200 million or 9 percent of the average annual volume of mortgages for owner-occupied residences originated in the State during the preceding three years. Further, the law limits the amount of arbitrage profit that can be earned by an issuer. The effective interest rate on mortgages made to homebuyers is limited to 1 1/8 percentage points above the bond yield.

Finally, except for general obligation bonds issued by States to provide housing for veterans, current law provides for the MSB program to expire at the end of 1983.

Description of S. 1598

Under S. 1598, State and local governments could elect to exchange all or a portion of their authority to issue tax-exempt MSBs for authority to issue mortgage credit certificates. A taxpayer who receives a mortgage credit certificate would be entitled to a tax credit equal to a percentage of his mortgage interest payments. The percentage of interest payments that would qualify for the credit could vary from 10 to 50 percent. The applicable percentage would be determined by the issuer and would be stated on the mortgage credit certificate. The mortgage interest credit would be refundable with the result that a taxpayer would receive a cash payment to the extent that the amount of the credit exceeded his tax liability. The bill would require a taxpayer to reduce his deduction for mortgage interest under section 163 of the Internal Revenue Code by the amount of the credit.

Eligibility requirements for mortgage credit certificates would be identical to the eligibility requirements under the MSB program. The mortgage credit certificate would remain in effect until the issuing authority revokes it or the residence to which it relates ceases to be the taxpayer's principal residence.

The aggregate annual amount of mortgage credit certificates that a State or local government could issue would be linked to the dollar amount of MSB authority that is given up in exchange for authority to issue mortgage credit certificates. The State or local government could use the certificates to provide tax credits of 14.35 percent of the interest paid on new mortgages in principal amount equivalent to the principal amount of MSB authority surrendered, or to provide a greater (or lesser) rate of tax credits on a smaller (or larger) principal amount. A State or local government that did not issue its entire authorized volume of qualified MSBs in 1983 would be subject to a five-year transition rule that would phase-in the authority to issue mortgage credit certificates. The transition rule would affect the volume limitation on a State's authority to issue MSBs only if the State elects to issue mortgage credit certificates. If the State issues both mortgage credit certificates and MSBs during a year of the transition period, the phase-in limitation would apply to the total amount of bonds and credits that it could issue during that year.

Finally, at least 90 days prior to the issuance of mortgage credit certificates, the issuing authority would be required to provide public notice of the eligibility requirements for such certificates, the method by which such certificates are to be issued, and any other information required by the Internal Revenue Service.

Discussion

On May 13, 1983, we testified before the Subcommittee on Taxation and Debt Management on S. 137, a bill that would eliminate the December 31, 1983 sunset date on the tax exemption for qualified MSBs. In our testimony we strongly opposed any extension or repeal of the sunset provision. Our position on the sunset of the MSB program has not changed.

MSBs are not a cost-effective way to subsidize owner-occupied housing. At least one-third of the total cost of the MSB program inures to bondholders and financial institutions, who serve as intermediaries, while at most two-thirds of the benefits reach the individual homebuyer. Moreover, we believe that the subsidies that MSBs provide to homeowners are unnecessary in view of other Federal assistance for homebuyers.

We also oppose extension of the MSB sunset because continued issuance of MSBs would cause further damage to the tax-exempt bond market. Extension of the MSB program would increase significantly the volume of private purpose tax-exempt bonds. This additional volume of tax-exempt bonds would result in a substantial increase in interest costs for State and local governments in financing traditional public projects, such as schools, roads, sewers, and public buildings. Finally, an extension of the MSB program would cause large future revenue losses. A one-year extension would cost the Federal government $4 billion over the term of the bonds issued during the extension period. A three-year extension would have a total cost of $15 billion.

We recognize that notwithstanding the Administration's strong opposition to MSBs, there is considerable Congressional support for extending the MSB program as a means of providing additional Federal assistance to homebuyers. Accordingly, if MSBs are to be continued, we would support giving State and local governments the option of issuing mortgage credit certificates in lieu of MSBs. We must oppose, however, the provision of S. 1598 that would make the tax credits refundable. We also have comments on several other aspects of the bill.

Advantages of Mortgage Credit Certificates over MSBs

While MSBs and the mortgage interest credit proposed in S. 1598 both are intended to reduce the cost of homeownership to low- and moderate-income individuals, the primary advantage of mortgage credit certificates over MSBs is that they are more cost-effective than MSBs. Tax credits would bypass the intermediaries who now reap a substantial portion of the benefits of tax-exempt financing. The greater cost-effectiveness of tax credits would enable State and local governments to provide the same benefit to homebuyers at a lower total cost to the Federal government. At a time when Federal deficits are of particularly great concern to all of us, we should redouble our efforts to provide Federal benefits through the most cost-effective means possible.

An example illustrates the cost savings to the Federal government of a tax credit over tax-exempt financing in providing equivalent benefits to homeowners. Low- and moderate-income individuals currently can obtain FHA-insured mortgages with an interest rate of 13 percent or MSB-financed mortgages with an interest rate of approximately 11 percent. On a $50,000 mortgage, the monthly payment on an FHA-insured mortgage would be $572, compared to a monthly payment of $476 on an MSB-financed mortgage. If the taxpayer received a mortgage interest tax credit of 14.35 percent of his interest payments, the total after-tax cost of the FHA-insured mortgage for the first year would be $4,594 (assuming the homeowner itemizes deductions and is in a 20 percent marginal tax bracket). In comparison, the total first-year after-tax cost of the MSB-financed mortgage would be $4,616.

While the two programs provide approximately the same benefit to the homeowner, the cost to the Federal government would be significantly less under the mortgage credit certificate program than under the MSB program. The first-year cost to the Federal government of subsidizing a $50,000 mortgage would be approximately $1,614 with MSBs, compared to $746 with the mortgage interest tax credit. Thus, under the assumptions used in this example, the mortgage interest tax credit represents a potential cost savings to the Federal government of 53 percent to the extent that it is used to replace MSBs.

The Treasury Department has estimated that the cost of a permanent extension of MSBs would be $3.2 billion over the next five years. Looking beyond five years, the total cost would be considerably more since most of the tax-exempt MSBs authorized by the extension of the program would be outstanding beyond the end of this century. We further estimate that the cost of extending the MSB program over the next five years could be reduced by approximately $600 million (to $2.6 billion) if the mortgage credit certificate option is adopted. The long-term cost savings would be considerably greater.

A second major advantage of mortgage credit certificates over MSBs is that the amount of the subsidy would be established directly and would not depend upon conditions in the volatile tax-exempt bond market. The subsidy provided through MSBs varies with the spread in interest rates between taxable securities and tax-exempt securities. Thus, the rate of the subsidy could vary significantly depending on both the timing of the issuance of the MSBs and the placing of the mortgage loan, and may bear no relationship to the amount of assistance that an individual may need to purchase a home. The rate of the subsidy provided with a tax credit, on the other hand, could be set directly by government authorities before the mortgage loan is made.

A third advantage of providing a subsidy through a mortgage credit certificate rather than through tax-exempt financing is that, unlike MSBs, tax credits would not add to the outstanding volume of private purpose bonds. This should help to reduce the cost to State and local governments of financing traditional public facilities and services with tax-exempt obligations.

Finally, mortgage credit certificates would eliminate the need for issuing authorities to establish reserve funds to service their MSBs. Reserve funds are necessary to tax-exempt financing since the issuing authority is acting as a financial intermediary. Nevertheless, amounts set aside in a reserve fund reduce the proceeds of an MSB that are available for mortgages.

Opposition to Refundability of Credit

Notwithstanding the substantial advantages of mortgage credit certificates over MSBs, we cannot support S. 1598 if the credit is refundable. The tax code first and foremost is designed to raise revenues. While tax credits are sometimes used as a convenient means of distributing Federal benefits, refundable credits would jeopardize the fundamental nature of the Federal income tax system. We believe that the importance of preserving the primary function of the tax code as a revenue raising statute outweighs any benefit that could be achieved through refundable tax credits.

We recognize that the refundability of mortgage credit certificates is intended to insure that in every case eligible homebuyers receive benefits through mortgage credit certificates that are roughly equivalent to the benefits that they would receive through MSBs. As a practical matter, however, almost all recipients of mortgage credit certificates would have sufficient tax liabilities to absorb the full credit.

Additional Comments

I wish to comment on a number of other aspects of the mortgage credit certificate program.

Administration of the Program. We are concerned with administrative and enforcement aspects of the program. The bill would allow States and localities to set the rate of the subsidy within certain limits and to provide different rates for different taxpayers. The provision for varying rates may make it difficult to monitor the volume limits. In view of this, a limited number of rates or denominations for mortgage credit certificates may be preferable. In any event, a mechanism to monitor the volume limitations and to insure that the recipients of mortgage credit certificates are qualified individuals is essential to administration of the program. In addition, consideration should be given to providing sanctions for violations of the statutory requirements. If the Committee intends to report this legislation despite the Administration's objections, we would like to work with the Committee to insure that the program can be properly administered and enforced.

Mortgage Credit Certificates as a Substitute for MSBs. Another question that deserves consideration is whether mortgage credit certificates should be an optional alternative to MSBs or a replacement for MSBs. S. 1598 would allow States to elect whether to issue mortgage credit certificates or MSBs. Because of the substantial advantages of mortgage credit certificates over MSBs, we would prefer that mortgage credit certificates be enacted as a substitute for MSBs rather than as an elective alternative.

Sunset Provision. We also strongly believe that any additional Federal housing assistance that is provided through tax subsidies should be subject to a sunset provision. Unlike direct expenditure programs, tax subsidies are not required to be reviewed annually as part of the appropriations process (although we recognize that the tax-writing committees may review these matters from time to time). Sunset provisions insure that the usefulness and effectiveness of such programs will be reviewed periodically.

If the MSB program must be continued, we strongly believe that the extension should be for a limited period. Similarly, if the mortgage credit certificate program is enacted, it should include a sunset provision.

Eligibility Requirements. In our earlier testimony on the sunset provision of the MSB program, we also stressed the importance of modifying the eligibility requirements if the program is extended. The current requirements do not adequately target the benefits to low- and moderate-income first-time homebuyers. Since the eligibility requirements for mortgage credit certificates would be keyed to the requirements for MSBs, it is appropriate again to consider modification of the existing requirements.

The MSB program, if continued, should be restricted in non-targeted areas to first-time homebuyers. Allowing existing homeowners to participate in the program crowds out first-time homebuyers, since existing homeowners typically are better risks and better able to provide larger downpayments. In addition, the purchase price limits in non-targeted areas should be reduced to 90 percent of the average area price. Under the current purchase price limits, nearly all first-time homebuyers qualify for assistance. The program was never intended to benefit such a large class of homebuyers. Changes should also be made to the definition of targeted areas. Current designations of targeted areas are subjective and difficult to administer. Finally, the purchase price limits should be supplemented by an income limitation equal to the median family income in the State.

In summary, if the MSB program is to be extended, S. 1598 with a nonrefundable credit would be a desirable modification to the program. We would like to work with the Committee with respect to the other concerns that we have raised today.

Cost of the MSB Program

Before concluding my prepared remarks, I want to emphasize the importance of dealing with the fiscal impact of the MSB program. In these times of budgetary constraint, it is essential for Congress to determine how it will pay for the MSB program if it extends the sunset. If MSBs must be continued, we believe that the best way to pay for the program is to offset the future revenue losses by scaling back the size of the MSB program and by simultaneously placing further restrictions on other private purpose tax-exempt bonds.

Our projections show that if the current State volume limits are not changed, the annual volume of tax-exempt MSBs will exceed $20 billion in 1987. We believe that the volume limits could be reduced in two ways. First, the allowable State volume could be reduced from 9 percent of the previous three years' average mortgage originations to a lower percentage such as 5 percent. Second, veterans' housing bonds should be included under the MSB State volume limit.

Future revenue losses also could be offset by imposing additional restrictions on other private purpose tax-exempt bonds. State and local governments issuing private purpose bonds could be required to give some form of support at their own cost to projects that receive Federally subsidized bond financing. Moreover, the provisions of current law requiring that all industrial development bonds be approved by a voter referendum or by an elected official following a public hearing could be extended to all private purpose bonds. Further, the limitations on depreciation deductions for property financed by tax-exempt bonds could be tightened.

Nevertheless, while we would support the tightening of existing limitations, experience shows that piecemeal restrictions are unlikely to reduce significantly the growing volume of private purpose tax-exempt bonds. We think that Congress should explore the possibility of enacting comprehensive restrictions applicable to all types of private purpose bonds. One such comprehensive approach would be to impose State volume limitations on all private purpose bonds, similar to the State volume limits currently applicable to MSBs. State and local governments could still decide which qualifying activities, whether owner-occupied housing, rental housing, economic development, or other uses, best serve local needs and deserve a Federal subsidy. The Federal government's interest would be protected through the overall limit on the amount of private purpose tax-exempt bonds that could be issued. The Treasury Department would support a properly designed volume limitation if the limitation imposes a reasonable ceiling on the amount of private purpose bonds that can be issued.

Finally, another proposal that deserves careful consideration is a trigger mechanism that would suspend the MSB program during periods when mortgage interest rates fall below a certain level. The explosive growth of MSBs in the late 1970's was attributable in part to the increase in mortgage interest rates during that period. A trigger mechanism would reflect the reduced need for Federal assistance when interest rates decline.

This concludes my prepared remarks. I will be happy to respond to any questions that you may have.

The CHAIRMAN. As I understand, you do not support the proposal, but if there is a choice between an extension of the sunset of this proposal then it would have more merit. Is that correct?

Secretary CHAPOTON. That is correct. Subject to our concerns with the refundability feature of this program, which gives serious concern.

The CHAIRMAN. I think the point that ought to be made—and, again, I understand Treasury's position—but you had some comment about a third of the benefits go to intermediaries.

Secretary CHAPOTON. That's correct. Less than two-thirds of the benefit go to the homeowners. A third of the benefits go to intermediaries.

The CHAIRMAN. Now do you have some documentation on that? I think there are a lot of members who signed up to repeal the sunset who think they are really doing something for first time homebuyers or for low-income Americans who want to buy a home. And I think they may be doing a little bit for those people, but they are doing a lot more for a lot of people who have a very special interest in the legislation. And, again, if we are going to have a program, I think we have a responsibility with those gapping deficits to try to find the most effective program.

Secretary CHAPOTON. We certainly agree, Mr. Chairman. We could certainly provide our analysis in that regard. I should point out that the Congressional Budget Office study showed a less benefit passing the homeowners, more inefficiency than our assumption.

The CHAIRMAN. I think they said about 50-50.

Secretary CHAPOTON. About 50-50, or less than 50-50, they estimated. Less than 50 percent of the benefit would go to the homeowner.

The CHAIRMAN. That's not a very cost effective program.

Secretary CHAPOTON. It's not a very cost effective program.

The CHAIRMAN. As a matter of fact, very helpful to some, but it doesn't do much for the first time homebuyer.

Secretary CHAPOTON. Yes, sir.

The CHAIRMAN. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman. I have a detailed statement that I would ask be made a part of the record. In the interest of time, I will not read the entire statement.

I would like to comment, Mr. Chapoton. We have been through this before at your previous appearances before the committee, and I must say it is as dismaying today as it was on previous occasions in which you opposed any legislation to deal with this serious problem.

I think we ought to note that during the recent recession, which we are now hopefully recovering from, there was a decline in home construction and home sales unequaled in the postwar period. And most troubling of all is the report that the percentage of homeowners in the United States has declined the last couple of years for the first time since the Great Depression.

I think it no coincidence that that has occurred during a period in which the Federal Government has withdrawn from the area of housing activity. The share of the Federal budget allocated to housing dropped from just about 5 percent in fiscal year 1980 to less than 1 percent in the fiscal year that is commencing October 1, 1983. That's a decline of 85 percent in just a few years. And I think it clearly is a major contributing factor to the difficulties in the housing industry.

I commend the chairman for offering this legislation. I think we must continue the important effort in an area that is fundamental to every American family. I do not agree with the chairman, of course, as we know, or you on the mortgage revenue bond program.

I would like to ask, after making those observations, a few specific questions. First, is it not true that a major difference between this alternative and the revenue bond program is that the mortgage credit certificates assume the availability and affordability of home financing, whereas the revenue bond program itself represents a source of such financing? And if that is the case—I know the answer to this—what can you suggest be done to assure that credit will be available and affordable; particularly, during recessions or in rural areas like my own State where even in the best of times such credit is hard to come by?

Secretary CHAPOTON. Well, I think, Senator Mitchell, I would like to comment on the earlier point. I understand, of course, your position. And we all, I think, agree on the importance of private home ownership. I think your figures probably deal with—we are now talking about individual private family owned residences; I think your figures also relate to multifamily housing, which is also a concern. I agree. I'm not sure it's involved here.

But I think what we would say, the figures show, is that a recovery is the strongest help to people who are trying to finance their first home. And that we make the problem more difficult, and really don't help it in a meaningful way, by dealing with it on programs such as this.

Overall, the program has put out a lot of money. We think most of these homeowners would have bought homes perhaps a little later, but would have certainly been homebuyers in any event.

Senator MITCHELL. Oh, but, Mr. Chapoton, you are not seriously suggesting that the Federal programs that have been in existence in the postwar period have not contributed to making housing more readily—single family housing, if you want to limit it to that—more readily available to Americans than would otherwise have been the case?

Secretary CHAPOTON. No, sir. I'm talking about the mortgage subsidy bond program. No question about we have, through Government policy, allocated a substantial portion of our capital stock to single family homes.

Senator MITCHELL. Well, even the mortgage revenue bond program has made that available. Your criticism of it has been that it is inefficient; that it adversely affects the tax exempt market; and is expensive to the Government.

Secretary CHAPOTON. That is correct.

Senator MITCHELL. But not one of those supports your arguments that it has not made housing more readily available to those Americans who need it. All you are saying is that it is not very efficient, and effective in doing that.

Secretary CHAPOTON. That's correct. And the targeting mechanism put there at the income scale basically is, as I have mentioned before—we think are people that would have purchased houses. No question that if you lower the cost—and this lowers the cost—it means they will purchase a house sooner.

And I think your comment that the mortgage subsidy bond program provides tax exempt financing does provide a source of funds where the credit mechanism means that you would go to traditional sources of funds, but reduce the cost of those funds. I think there has not been a showing that there will not be sufficient funds at the proper cost for first time home buyers. And absent a showing of that, I think we certainly ought to go to the most cost effective——

Senator MITCHELL. Well, how about just looking at what happened in this country in the past 2 years? How much more evidence do you need than that?

Secretary CHAPOTON. Well, indeed, when interest rates got higher, there were not even mortgage subsidy bonds issued. So we simply cannot solve all the problems that we would like to solve. But at a certain point, funds are not available. At a certain point, interest cost funds are not available. I think they are now available though.

Senator MITCHELL. Well, my time is up. And I know that we have a time problem here. So I will end my questioning. I do have several other questions. I wonder if I might submit them in writing, Mr. Chapoton, just to give the chairman an opportunity to proceed with the hearing.

Secretary CHAPOTON. Yes, sir. I will be happy to answer them.

Senator MITCHELL. Thank you.

[The questions from Senator Mitchell follow:]

RESPONSES TO SENATOR MITCHELL'S QUESTIONS CONCERNING MORTGAGE CREDIT CERTIFICATES

Question. Mortgage credit certificates assume the availability and affordability of home financing. Is there anything that can be done to assure that such credit will not be lacking during recessions or in rural areas?

Answer. Improvements in the secondary markets for mortgages have made the availability of mortgage credit less susceptible to general economic conditions and geography. However, if an issuing jurisdiction believed that mortgage availability was only possible through the issuance of tax-exempt mortgage subsidy bonds (MSBs), under S. 1598 it could forego the tax credit option and issue MSBs instead.

Mortgage availability is often confused with mortgage affordability. Many homebuyers may consider mortgages to be unavailable if they cannot afford to pay high rates of interest, yet mortgage lenders may have sufficient funds to lend at the high rates.

The mortgage credit certificate option has a distinct advantage over MSBs in this regard. When mortgage interest rates reached 17 percent, tax-exempt interest rates reached a level of 13.5 to 14 percent. Many jurisdictions did not issue MSBs because many homebuyers cannot afford MSB-subsidized mortgages with interest rates of 14 to 15 percent. If mortgage interest rates were to increase sharply again, the mortgage credit certificate option would be more effective in making mortgages affordable. The issuing authority could choose a rate of subsidy that would reduce the after-credit cost of the mortgage to a level that homebuyers could afford. For instance, a 35-percent tax credit would reduce the total interest cost of a 17-percent mortgage to the equivalent of the interest cost of an 11-percent mortgage.

Question. Will the tax credit in fact better target aid to low and moderate income persons in those circumstances where they do not qualify for or cannot afford conventional financing?

Answer. The eligibility requirements for the mortgage credit certificates are identical to the requirements for MSBs. The mortgage tax credit option, however, permits the issuing authorities to vary the rate of the subsidy given to eligible individuals.

Under S. 1598, State and local housing authorities would be able to make mortgage credit certificates available to families that cannot qualify for or afford conventional financing by issuing mortgage credit certificates with rates of subsidy between (say) 25 and 50 percent. On the other hand, because the rate of subsidy from MSBs is dependent on conditions in the tax-exempt bond market, housing authorities are not able to offer deeper subsidies to families most in need of assistance under the MSB program.

Question. The mortgage credit certificate program concentrates on providing home ownership opportunities through the resale of existing housing. Yet, every year, housing are removed from the market due to age, deterioriation or destruction. Should there be a role for new construction in the program to replace such units?

Answer. The mortgage credit certificate proposal, and the current MSB program, do not differentiate between mortgage financing for new and existing homes. Mortgage credit certificates would be available to finance a mortgage on a newly constructed home if the homebuyer meets the eligibility requirements.

Question. Given that the tax credit is refundable at the end of the year, and is not available as part of monthly cash flow, will lenders have any difficulty in taking the tax credit into account in determining the creditworthiness of an applicant?

Answer. We expect that recipients of mortgage credit certificates will be able to increase the number of exemptions claimed on their W-2 withholding forms which, in turn, should reduce Federal income tax withholding and increase monthly cash flow for these homebuyers. If withholding is adjusted to reflect the value of the credit, we expect that most mortgage lenders will consider the availability of the credit in determining whether the applicant has the ability to make mortgage payments.

The CHAIRMAN. Thank you, Senator Mitchell.

We have a briefing at 10:30 on Lebanon by Secretary Shultz. I'm going to be a little late, I guess. Not too late.

I will also have some questions of Mr. Chapoton after we have had other witnesses and after maybe Treasury has had an opportunity to review their statements.

Again, it seems to me we just ought to make a judgment in the committee whether we are trying to help investors and bond lawyers or first time home buyers. And once we make that choice, it ought to be fairly easy.

Secretary CHAPOTON. I agree, Mr. Chairman.

Senator MITCHELL. In a court of law, Mr. Chairman, that is called a leading question. [Laughter.]

Secretary CHAPOTON. Thank you, Mr. Chairman.

The CHAIRMAN. At least leading. But I think there is a basic judgment we have to make. But I would say to Mr. Chapoton that something will happen. I mean there will either be an extension or some—because I think the committee does feel strongly there is a need in this area, and we understand Treasury's objections. But we will try to work it out.

Our next witness will be Mr. Peach, Director, Resources, Community and Economic Development Division, General Accounting Office, Washington, D.C.

Again, Mr. Peach, I would say, as I have indicated to Mr. Chapoton, that I had the opportunity last evening to read your statement. I think it is a very excellent one. I hope you might be able to summarize it so that if we have a few questions we would like to address, we can, and then move onto the next panel.

STATEMENT OF J. DEXTER PEACH, DIRECTOR, RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION, GENERAL ACCOUNTING OFFICE, WASHINGTON, D.C.

Mr. PEACH. Mr. Chairman, I would be pleased to summarize my written statement. Let me first introduce my colleagues at the table with me. Mr. William Gainer who is a group director responsible for our housing program reviews of the General Accounting Office; and Mr. Larry Hirschler who worked on the review that we did in the mortgage revenue bond area for the committee.

My statement is lengthy. It has a number of exhibits. The basic message, though, is that a homeowner tax credit program which would provide income tax reductions to subsidize mortgage interest payments could be much more efficient as a subsidy mechanism than the existing mortgage revenue bond provision.

Essentially, the calculations that we did in our review indicated that from a present value basis, the tax revenue loss of mortgage revenue bonds issued in 1981 and 1982 could approach $2.6 billion while the revenue loss to provide equivalent benefits using the tax credit were estimated at about $680 million.

The CHAIRMAN. About a $2 billion difference?

Mr. PEACH. Yes. That's correct. And that's based on looking actually at what happened in 1981 and 1982.

Now depending on how it's implemented by States and localities, the structure of the tax credit being proposed could allow the mechanism to reach more households who could not otherwise afford to purchase homes. These tax credits could provide a greater degree of flexibility to State and local governments in terms of selecting participants in accordance with need, achieving geographic targeting, and controlling the timing of assistance.

I might add, Mr. Chairman, I believe the flexibility of this provision is one of its more attractive features; particuarly, if you look at trying to target it more closely to those families in need.

I should emphasize that we are not commenting on the policy question of whether or not subsidies should be made available to facilitate home ownership for first time home buyers. Essentially, our comments are directed to certain key features of the bill, and suggestions for some additional provisions which we believe Congress might wish to consider.

Let me cover briefly just what those suggestions are. There are about four or five of them.

One would be the question of explicit guidance on who should benefit from homeownership assistance, which perhaps could enhance the program effectiveness. This could be accomplished by a rule which would tie eligibility to area and median income or by stipulating that assistance should only be provided to households who could not afford to purchase homes without assistance.

This explicit legislative guidance may be needed because our experience under the mortgage revenue bond program is that federal purchase price limits and state and local income limits have proved ineffective in terms of targeting those in need, as intended by Congress.

As a second point, households receiving assistance should be allowed to shop the market for the most affordable financing in housing rather than being required to deal with a specific lender or to buy specific properties to obtain the subsidy. The underlying mortgage revenue bond legislation is silent on that particular point.

We also support a sunset provision which would require reauthorization of the tax credits, and underlying mortgage revenue bond legislation 2 to 3 years after passage to allow Congress to reevaluate the success of the proposal, and to debate the need for the continued assistance.

Also to facilitate congressional oversight, tax credit issuers might be required to collect certain basic information on income and family size on assisted home buyers in a standardized format specified by the Treasury. And we assume in saying that that this is the kind of information that would have to be gathered anyway in terms of qualifying the people for the credit.

There is also another point that after putting together our statement we think is worth raising. And that is in recognition of the fact that once many people receive the credits, their income will go up over a period of time. And the need for the subsidy could drop. So it may be appropriate to put in some kind of recertification provision after some set period to recertify people for the credit.

And while we have no precise idea as to what kind of period that could be, one could look in a 3- to 5-year range, I suppose. But suggesting it would be appropriate.

Let me close my statement with that, Mr. Chairman. I think those are the essential points that we need to make that we would like for the committee to consider as they move forward with this legislation. And we will respond to your questions.

[The prepared statement of Mr. Peach follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:30 A.M. EDST
TUESDAY, SEPTEMBER 13, 1983

STATEMENT OF
J. DEXTER PEACH, DIRECTOR
RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ON

THE FIRST TIME HOMEBUYER ASSISTANCE ACT OF 1983

Mr. Chairman and Members of the Committee:

We appreciate being asked to comment on S-1598, the "First Time Homebuyer Assistance Act of 1983". We previously discussed the costs and benefits of the mortgage revenue bond program under which States and localities sell tax-free bonds and use the proceeds to fund lower-interest rate mortgages to first time homebuyers, and certain alternatives in our April 18, 1983, report to the Chairman and then subsequently during two hearings held by your Subcommittee on Taxation and Debt Management and by the House Committee on Ways and Means. On those occasions we concluded that a homebuyer tax credit program which would provide income tax reductions to subsidize mortgage interest payments could be much more efficient as a subsidy mechanism than the existing mortgage revenue bond provision.

We believe that S. 1598 which would allow States and localities to substitute the use of tax credits for mortgage revenue bonds would be a positive step in improving the cost-effectiveness of subsidies for first time homebuyers. Depending upon how it is implemented by States and localities, the structure of the tax credit being proposed could allow the mechanism to reach more households who could not otherwise afford to purchase homes. These tax credits can provide a greater degree of flexibility to State and local governments in terms of selecting participants in accordance with need, achieving geographic targeting and controlling the timing of assistance.

As in our previous testimony, we are not commenting on the policy question of whether or not subsidies should be made available to facilitate homeownership for first-time homebuyers. Our statement today will be confined to commenting on certain key features of the tax credit proposal and suggesting some additional provisions which we believe Congress should consider as it takes up this legislation.

In brief, we believe that a variable tax-credit subsidy as contained in this bill will allow States and localities to match the subsidy amount to household need. In addition, we also support the refundability provision which allows households with limited tax bills to benefit from the program. Both of these provisions enhance the potential for income targeting. We think that the amount of the tax credit subsidy will adequately approximate the aggregate amount of subsidy provided by revenue bonds and that it should be sufficient to result in some States trading revenue bond authority for the use of tax credits. Its structure will allow it to be used effectively regardless of the level of interest rates, and rapid fluctuations in interest rates will not degrade its effectiveness as has sometimes been the case with revenue bonds. All in all, it should prove administratively simple to implement and it will provide State and local governments with a much greater ability to achieve specific policy goals such as targeting assistance to low- and moderate-income households or geographic areas or perhaps providing countercyclical economic stimulus.

To strengthen the proposal and help overcome what we believe were shortcomings in the underlying mortgage revenue bond program, Congress should also consider some additional legislative provisions.

--Explicit guidance on who should benefit from homeownership assistance could enhance program effectiveness. This could be accomplished by a rule tying eligibility to area median income and by stipulating that assistance should only be provided to households who could not afford to purchase homes without assistance. Such explicit legislative guidance may be needed because Federal purchase price limits and State and local income limits have proven ineffective in targeting benefits to those in need as intended by Congress.

--Households receiving assistance should probably be allowed to shop the market for the most affordable financing and housing rather than being required to deal with a specific lender or to buy specific properties to obtain the subsidy. The underlying mortgage revenue bond legislation is silent on this point.

--A sunset provision which would require reauthorization of the tax credit (and the underlying mortgage revenue bond legislation) 2 to 3 years after passage would allow Congress to reevaluate the success of the proposal and debate the need for providing continued assistance.

--To facilitate Congressional oversight tax credit issuers might be required to collect certain basic information (e.g., income and family size) on assisted homebuyers in a standardized format specified by the Treasury.

BACKGROUND

In a typical mortgage revenue program, State or local governments issue tax-exempt bonds, thereby providing funds for below interest rate mortgage loans for single-family homes. The State or local agency's primary role is to issue the bonds and establish eligibility guidelines for mortgage loans. Mortgage loans are most often made through lending institutions which process applications, check the borrower's credit worthiness, and ensure that borrowers meet legislative restrictions. The bonds are repaid from the mortgage payments collected from individual homeowners. Federal law sets a limit on the volume of bonds each state can issue ($200 million per year or more depending on the private lending activity in the State).

Under an annual tax credit program for homebuyers, borrowers would receive a certificate which would allow them a tax credit to offset their tax bills equivalent to a given percentage reduction of their mortgage interest expense each year. Recipients could increase their income tax withholding exemptions, thereby helping them make monthly mortgage payments. Under S-1598, State and local governments could elect to exchange all or a part of their mortgage revenue bond authority to issue a comparable amount of tax credit certificates. The tax credit option results in yearly Federal revenue losses as do mortgage revenue bonds.

COST-EFFECTIVENESS

In our April report, we calculated that had tax credits been used in 1982 the long-term revenue loss to the Treasury could have been roughly 25 percent of the costs incurred using revenue bonds and that this lower cost would have been roughly equal to the cash value of the tax credit to homebuyers. The major reason for these lower costs is that the tax-credit option eliminates the large tax-savings provided to revenue bond investors as well as the profits provided to many financial and legal intermediaries.

We calculated, for example that the present value of lost tax revenues for a homebuyer tax-credit in 1982 would have been about $3,500 based on an average mortgage of $43,300 (exhibit 1). By contrast, the same benefit to homebuyers under the mortgage revenue bond program would have a present value cost of approximately $13,300 per loan. Thus, the $10 billion raised with revenue bonds for home loans in 1981 and 1982 could result in a tax revenue loss of $2.66 billion (present value) while a tax-credit program providing the same loans could have been funded for about $680 million--a savings of approximately $2 billion. We also concluded that even greater savings (or improved benefits) could have been achieved if loans had been granted only to those low- and moderate-income households that needed assistance to purchase homes.

Although the interest rate subsidy provided to homebuyers by revenue bonds can fluctuate substantially from month to month and is therefore subject to some uncertainty, we believe that over the long run the value of the subsidy averages between 10 and 15 percent of the market interest rate. Thus an average subsidy of 14.35 percent as provided by this bill should be ample to approximate the revenue bond subsidy and make its use attractive, resulting in savings to the Treasury while increasing the overall assistance available to homebuyers (See Exhibit 2). As an example, applying the proposed 14.35 percent credit to the average market interest rate in 1982, the subsidy provided buyers on a $43,300 mortgage would be about $5,300 as compared to a revenue bond subsidy of $3,500. The tax credit cost would equal the same $5,300 as compared to a revenue loss under mortgage revenue bonds of $13,300. Exhibits 3 through 5 show the Federal costs and homebuyer interest savings resulting from increasing or decreasing the level of a tax-credit under a variety of market interest rates.

FLEXIBILITY

Compared to the revenue bond structure, the proposed homebuyer tax credit provides much greater flexibility to State and local governments to select among loan applicants and to adjust the subsidy level based upon financial need. In addition, the tax-credit will not be adversely affected during periods of fluctuating interest rates and market instability. Specifically:

--Tax credits would provide greater opportunity for the administering agencies to screen households to select participants with the greatest need and then allow participants to pick and choose among lenders to shop for the best mortgage interest rates available. Such flexibility is not generally available under revenue bond programs which often leave the selection of potential homebuyers up to a limited number of lenders who take applicants on a first-come, first-served basis.

--Tax credits can provide subsidies in accordance with financial need. Administrating agencies could provide larger subsidies to qualified purchasers with relatively low incomes and smaller subsidies for purchasers in less financial need. The tax credit proposal also makes the credit "refundable" for those whose income tax bills are too low to fully utilize a tax credit. In contrast, since the interest reduction is the same for all buyers and higher income buyers buy more expensive homes, revenue bonds have provided smaller benefits to lower income households and larger benefits to higher income households. For example, in 1982, for a household earning $20,000 annually, we estimate that the bond subsidy was worth about $450 per year while a household earning $40,000 received a yearly interest reduction of about $820.

--Tax credits would function smoothly during periods of fluctuating interest rates and market instability. Unlike revenue bonds, the tax credit can allow States and localities to set a predetermined reduction of the mortgage interest rate effective at the time of home purchase. In contrast, the revenue bond mortgage rate is set when the tax-exempt bonds are sold to investors, but the value of the subsidy to buyers fluctuates with the mortgage market interest rate. For example, a decline in interest rates following the sale of bonds can drive conventional interest rates below those of bond financed mortgages. Such a drop in rates occurred in late 1982 and left many housing agencies with bond proceeds that they could not lend to homebuyers. As a result, many agencies were forced to call portions of their bonds or blend unusable proceeds with those from lower cost bond issues, thus failing to provide the full amount of lending anticipated, or degrading the impact of the lower cost bond issues.

INCOME TARGETING

While the Congressional intent was to target revenue bond subsidies to low- and moderate-income households who could not otherwise afford homeownership, the program was structured in a way that did not facilitate the achievement of this objective. Our research shows that most 1982 revenue bond homebuyers were above median income (See Exhibits 6 through 8 for information on revenue bond homebuyer incomes) and at least half, and perhaps as many as about three-quarters could have purchased the same homes without subsidy (Exhibit 9). In our April report we also concluded that Federal purchase price limits and the first-time homebuyer eligibility requirements which were used as proxies for income targeting under the mortgage revenue bond program were largely ineffective in targeting benefits to those low- and moderate-income households in need of assistance (See Exhibits 10 and 11 which show the purchase price limits and the level of income needed to purchase the maximum priced house allowed by Federal regulations). Had program benefits been more fully targeted to low- and moderate-income people, the proportion of loans going to households which could not otherwise afford homeownership would have been much greater.

Better income targeting could be achieved, for example, by setting explicit income limits which (1) precluded households above median income from receiving assistance (See Exhibit 12 for some examples of local limits based on median income), and (2) stipulating that only households who could not otherwise afford to buy homes could use these tax credits. To determine need, an applicant's income must be compared to the incomes of households of the same size residing in the same geographic area. It is likely that with some exceptions, households with income above the median (adjusted by family size) for their locality could buy a house in their community, although it might not be the house they most desire. This conclusion is based on the fact that a HUD subsidized homeownership program which proved very popular, used income limits set just below the median for each locality and on two sets of calculations we performed. We estimated that (1) as many as three-quarters of revenue bond subsidized homebuyers could have met the income standards for an unsubsidized loan (See Exhibit 9) and that (2) roughly the same proportion of these households were above median income adjusted for family size (See Exhibit 6).

Although data was not readily available on the assets of mortgage revenue bond homebuyers Congress might also wish to consider excluding households with substantial assets from receiving subsidies. Such households have the ability to provide larger down payments and thus decrease their monthly mortgage payments enough to quality for an unassisted loan. We do know that a small percentage of revenue bond homebuyers did make substantial down payments (See Exhibits 13 and 14).

In order to provide subsidies to as many lower income households as possible, it might also make sense to require that purchasers be allowed to shop for the most affordable housing in the area. This would argue against reserving some block of credits for new houses or particular developments which has been done frequently under mortgage revenue bonds. New homes are generally more expensive than comparable existing homes. Consequently, we believe the Congress should consider requiring that households receiving tax-credits be allowed to shop the market rather than being required to buy certain properties to obtain the assistance.

SUNSET/PROGRAM EVALUATION

With regard to how long the proposed legislation should be in effect, we believe that establishing a sunset date and including program evaluation provisions in the Act would be appropriate. The homebuyer tax-credit program contains many theoretically desirable characteristics but is, like all new ideas, untried. It is therefore an ideal candidate for re-evaluation after 2 or 3 years. The effectiveness of the mortgage revenue bond program is still subject to argument and if it is extended beyond 1983 we believe it should also be periodically reevaluated and reauthorized especially in light of the creation of a homebuyer tax credit alternative as proposed in this legislation. To facilitate program evaluation and Congressional oversight, Congress should consider requiring that issuers collect certain standardized information on tax credit beneficiaries. Without this data base, data collection and analysis to support Congressional decisions is time consuming and unnecessarily expensive. In fact, lenders generally collect all or most of the information which would be useful as a part of determining whether prospective buyers qualify for mortgage loans.

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In conclusion, providing subsidies to households using homebuyer tax credits would be less costly than providing mortgage revenue bond financing and would provide greater flexibility to State and local governments in providing assistance. Requiring targeting to households whose incomes do not allow them to purchase homes without assistance would very likely increase program cost-effectiveness as compared to the present mortgage revenue bond program now being used by States and localities. Adding sunset and evaluation requirements to this and the underlying legislation would be desirable. And providing for free competition among lenders and homesellers would likely further the goals of making housing affordable to a greater number of households.

This completes my prepared statement. My colleagues and I will be happy to respond to any questions.

UNITED STATES GENERAL ACCOUNTING OFFICE

EXHIBITS TO ACCOMPANY TESTIMONY
PRESENTED BY J. DEXTER PEACH

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE
SEPTEMBER 13, 1983

LIST OF EXHIBITS

1. Federal cost of providing the same benefit to homebuyers under mortgage revenue bonds and alternatives
2. Average life cycle costs and monthly subsidy per household
3. Total Federal cost per unit for a homebuyer tax-credit program
4. Homebuyer tax-credit program: effective reduction in the average homebuyer's interest rate
5. First-year average interest reduction provided by a homebuyer tax-credit program
6. Income distribution of mortgage revenue bond homebuyers in eight states as a percent of local family median income
7. Income distribution of MRB homebuyers in 40 jurisdictions, by percent of state family median income
8. Income distribution of MRB homebuyers in 40 jurisdictions
9. Percent of mortgage revenue bond homebuyers in seven states who could have purchased in 1982 without subsidy
10. Annual income required to purchase the maximum priced house allowed by federal regulations in eight states during 1983
11. Federal purchase price limits for mortgage revenue bond single-family homes in non-target areas
12. Comparison of mortgage revenue bond income limits and median income in selected localities
13. Percent of downpayment for MRB homebuyers in eight states
14. Amount of downpayment by MRB homebuyers in eight states

EXHIBIT 1 EXHIBIT 1

FEDERAL COST OF PROVIDING THE SAME BENEFIT TO HOMEBUYERS UNDER MORTGAGE REVENUE BONDS AND ALTERNATIVES

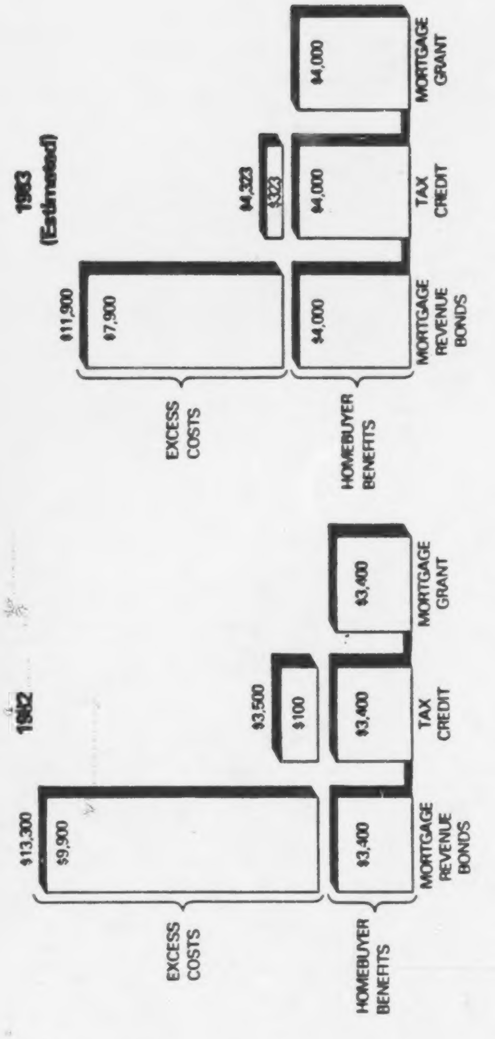

EXHIBIT 2 EXHIBIT 2

Average Life Cycle Cost and Monthly Subsidy Per Household

Mortgage revenue bond (actual 1982)

Income group ($000)	Percent of funds loaned	Percent of loans made	Mortgage amount	Life cycle cost per loan	Monthly subsidy
0-20	10	17	$ 29,100	$ 8,900	$ 33
20-30	40	45	41,900	12,900	48
30-40	28	24	53,400	16,400	61
40-50	15	10	68,000	20,900	78
Over 50	7	4	72,700	22,300	83
Total	100	100			

Hypothetical State tax-credit program providing a flat subsidy to all income groups

Income group ($000)	Credit percentage	Mortgage Amount	Life cycle cost per loan	Monthly subsidy
0-20	14.35	$ 29,100	$ 3,600	$ 53
20-30	14.35	41,900	5,300	76
30-40	14.35	53,400	6,500	97
40-50	14.35	68,000	8,300	123
Over 50	14.35	72,700	8,900	132

Hypothetical State tax-credit program incorporating a variable subsidy

Income group ($000)	Credit percentage	Mortgage Amount	Life cycle cost per loan	Monthly subsidy
10-15	50	$ 30,000	$ 12,800	$ 190
15-20	30	30,000	7,700	114
20-25	10	30,000	2,600	38

EXHIBIT 3 EXHIBIT 3

Total Federal Cost Per Unit For A Homebuyer Tax-credit Program a/

Tax credit as a percentage of mortgage interest paid	Conventional Mortgage Interest Rate			
	10 percent	12 percent	14 percent	16 percent
10.0	$ 3,000	$ 3,300	$ 3,600	$ 3,800
12.5	3,700	4,100	4,500	4,700
14.35	4,300	4,800	5,100	5,400
15.0	4,500	5,000	5,400	5,700
17.5	5,200	5,800	6,300	6,600
20.0	6,000	6,600	7,200	7,500

a/ These amounts represent the life cycle costs and benefits in present value terms on a $43,300 mortgage that is prepaid at the end of its 12th year.

EXHIBIT 4 EXHIBIT 4

Homebuyer Tax-credit Program: Effective Reduction In Average Homebuyer's Interest Rate a/

Tax credit as a percentage of mortgage interest paid	Conventional Mortgage Interest Rate			
	10 percent	12 percent	14 percent	16 percent
10.0	1.0	1.2	1.4	1.6
12.5	1.3	1.5	1.8	2.0
14.35	1.4	1.7	2.0	2.3
15.0	1.5	1.8	2.1	2.4
17.5	1.8	2.1	2.5	2.8
20.0	2.0	2.4	2.8	3.2

a/ For example, a 14.35 percent tax-credit as proposed in S-1598 would effectively reduce the mortgage interest rate by 2 percent from 14 to 12 percent.

EXHIBIT 5

EXHIBIT 5

First-year Average Interest Reduction Provided by a Homebuyer Tax-credit Program

Tax credit as a percentage of mortgage interest paid	Conventional Mortgage Interest Rate			
	10 percent	12 percent	14 percent	16 percent
10.0	$ 430	$ 520	$ 610	$ 690
12.5	540	650	760	860
14.35	620	740	870	990
15.0	650	780	900	1,040
17.5	760	910	1,060	1,210
20.0	860	1,040	1,210	1,380

EXHIBIT 6

EXHIBIT 6

Income Distribution of Mortgage Revenue Bond Homebuyers in Eight States as a Percent of Local Family Median Income

Income group as a percent of median income	Percent of Homebuyers			
	Before adjusting for family size		After adjusting for family size	
0- 50	1		0	
50- 80	20		8	
80-100	28		17	
100-120	20	51%	25	75%
120-200	27		41	
Over 200	4		9	
Total	100		100	

EXHIBIT 7

INCOME DISTRIBUTION OF MRB HOMEBUYERS IN 40 JURISDICTIONS, BY PERCENT OF STATE FAMILY MEDIAN INCOME BY BOND-ISSUING AUTHORITY NUMBER OF PARTICIPANTS

Jurisdiction	Percent of State Family Median Income						
	0-50	50-80	80-100	100-120	120-200	200 and over	Total
Alaska	2	191	220	257	603	27	1,300
California							
Fairfield City	0	3	19	22	44	5	93
Fresno County	1	37	43	77	55	0	213
Newark City	1	6	8	37	159	41	252
Riverside County	1	7	32	55	58	0	153
Colorado							
Larimer County	2	22	52	67	3	0	146
Connecticut	37	803	962	222	115	1	2,140
Florida	6	25	25	22	31	0	109
Broward County	0	11	19	57	165	0	252
Dade County	0	4	6	25	100	0	135
Duval County	0	12	26	49	155	0	242
Hawaii	0	4	13	10	3	0	30
Idaho	3	70	141	129	15	0	358
Indiana	33	208	199	132	103	0	675
Kentucky	1	49	160	154	31	0	395
Louisiana	8	38	74	128	825	263	1,336
Maine	0	6	12	31	35	0	84
Maryland				0	0	0	
Montgomery County	3	89	208	295	13	0	608
Washington County	4	23	27	21	10	0	85
Michigan	0	6	18	48	0	0	72
Minnesota	0	7	12	18	1	0	38
Missouri	11	112	256	300	285	0	964
Montana	0	17	52	83	95	0	247

EXHIBIT 7

EXHIBIT 7

Jurisdiction	Percent of State Family Median Income						
	0-50	50-80	80-100	100-120	120-200	200 and over	Total
Nebraska	67	144	171	101	106	0	589
New Hampshire	0	1	0	1	0	0	2
New Jersey	2	25	30	22	37	0	116
New York	21	203	324	343	707	42	1,640
North Carolina	6	85	135	199	0	0	425
Oklahoma	1	24	72	121	705	308	1,231
Pennsylvania	196	506	475	402	271	0	1,850
Rhode Island	133	854	418	174	133	0	1,712
South Dakota	0	0	6	5	28	0	39
Tennessee	93	410	345	256	94	0	1,198
Texas	0	0	1	1	2	0	4
East Texas	0	2	7	8	28	2	47
Gregg County	17	20	24	22	17	0	100
Tarrant County	17	37	56	42	110	0	262
Utah	0	2	9	8	6	0	25
Virginia	4	92	258	306	173	0	833
Wyoming	0	13	39	76	342	1	471
Total participants	670	4,168	4,954	4,326	5,663	690	20,471
Percent of participants	3	20	24	21	28	4	100

EXHIBIT 7

EXHIBIT 8

EXHIBIT 8

INCOME DISTRIBUTION OF MRB HOMEBUYERS IN 40 JURISDICTIONS
BY BOND-ISSUING AUTHORITY
NUMBER OF PARTICIPANTS BY INCOME LEVEL
(in $10,000 intervals)

Jurisdiction	Homebuyer income in thousands						
	0-10	10--20	20-30	30-40	40-50	Over 50	Total
Alaska	0	34	317	407	358	184	1,300
California							
Fairfield City	0	1	36	22	24	10	93
Fresno County	0	16	107	86	4	0	213
Newark City	0	5	29	82	77	59	252
Riverside County	0	2	71	77	3	0	153
Colorado							
Larimer County	1	23	119	3	0	0	146
Connecticut	0	264	1,419	394	53	10	2,140
Florida	6	50	51	2	0	0	109
Broward County	0	30	222	0	0	0	252
Dade County	0	10	125	0	0	0	135
Duval County	0	38	150	54	0	0	242
Hawaii	0	0	19	11	0	0	30
Idaho	0	146	207	5	0	0	358
Indiana	8	266	319	77	5	0	675
Kentucky	3	271	121	0	0	0	395
Louisiana	9	111	469	747	0	0	1,336
Maine	0	14	70	0	0	0	84
Maryland							
Montgomery County	0	42	335	231	0	0	608
Washington County	0	13	50	21	1	0	85
Michigan	0	2	53	17	0	0	72
Minnesota	0	10	27	1	0	0	38
Missouri	6	238	696	24	0	0	964
Montana	0	44	187	16	0	0	247

EXHIBIT 8

EXHIBIT 8

Jurisdiction	Homebuyer income in thousands						
	0-10	10-20	20-30	30-40	40-50	Over 50	Total
Nebraska	53	250	257	29	0	0	589
New Hampshire	0	1	1	0	0	0	2
New Jersey	0	11	46	37	19	3	116
New York	6	124	555	557	286	112	1,640
North Carolina	6	220	199	0	0	0	425
Oklahoma	1	96	373	499	178	84	1,231
Pennsylvania	105	597	877	271	0	0	1,850
Rhode Island	58	929	617	105	3	0	1,712
South Dakota	0	7	26	6	0	0	39
Tennessee	134	790	274	0	0	0	1,198
Texas	0	0	4	0	0	0	4
East Texas	0	5	24	15	3	0	47
Gregg County	16	34	42	8	0	0	100
Tarrant County	13	76	107	66	0	0	262
Utah	0	2	21	2	0	0	25
Virginia	0	161	577	95	0	0	833
Wyoming	0	20	117	239	95	0	471
Total participants	425	4,953	9,316	4,206	1,109	462	20,471
Percent of participants	2	24	46	21	5	2	100

EXHIBIT 9 EXHIBIT 9

Percent of Mortgage Revenue Bond Homebuyers in Seven States Who Could Have Purchased in 1982 Without Subsidy

	Affordability Standard		
	Varies by State a/	33 percent housing costs to income b/	28 percent housing costs to income c/
Connecticut	87	63	28
Idaho	82	54	28
Indiana	90	80	60
Kentucky	87	77	48
New York	91	93	72
Oklahoma	92	92	67
Virginia	77	53	17
Weighted Average	88	76	48

a/ Based on housing costs to income standards that lenders actually used in approving MRB loans in the seven States. Using this criteria assumes that lenders did not apply more lenient loan qualification standards to MRB homebuyers than homebuyers who obtained market rate loans.

b/ Based upon a reasonable proxy for the standard used for conventionally insured and government insured loans granted in 1982. Conventionals would routinely have been granted at 30 percent with many exceptions possible for smaller households and FHA and VA loans would have generally allowed much higher debt to income ratios, given their methodology for qualifying buyers.

c/ Based on the most stringent standard used for market rate loans during 1982. Using this standard assumes that lenders applied a much stricter standard for market rate loans than for MRB loans.

EXHIBIT 10 EXHIBIT 10

Annual Income Required to Purchase the Maximum Priced House Allowed by Federal Regulations In Eight States During 1983 a/

State	Required incomes		Income as a Percent of State Family Median Income	
	New	Existing	New	Existing
Connecticut	$ 92,517	$ 90,279	239	211
New York	67,573	47,583	202	167
Oklahoma	55,900	44,646	244	195
Alaska	55,296	40,748	175	129
Idaho	50,696	41,312	233	190
Virginia	50,125	31,213	228	142
Kentucky	50,462	30,635	212	129
Indiana	47,135	33,281	183	129

a/ Based on an affordability standard allowing 25 percent of household income to go for mortgage principal and interest payments, excluding taxes and insurance. We made this computation based on information provided by the eight States pertaining to minimum required downpayments, mortgage interest rates, and maximum loan amortization periods. We then converted the required income to a percent of State family median income.

EXHIBIT 11 EXHIBIT 11

FEDERAL PURCHASE PRICE LIMITS FOR MORTGAGE REVENUE BOND SINGLE-FAMILY HOMES IN NON-TARGET AREAS

	1982		1983	
AREA	NEW	EXISTING	NEW	EXISTING
Alabama	$ 58,230	$ 50,490	$ 73,150	$ 57,970
Alaska	90,630	74,610	129,140	100,320
Arizona				
Phoenix	80,190	71,820	118,360	92,620
Tucson	74,880	59,670	92,840	74,140
Other	68,670	55,260	54,010	47,410
Arkansas				
Little Rock	55,890	55,260	a/	a/
Other	57,960	52,650	73,150	65,670
California				
Anaheim	104,760	110,430	150,040	124,850
Bakersfield	79,200	59,580	97,900	70,290
Fresno	81,540	52,020	106,260	64,790
Los Angeles	96,390	90,540	124,410	115,610
Oxnard-Simi Valley	97,740	86,580	132,890	116,820
Riverside	80,370	74,070	89,650	94,710
Sacramento	87,030	84,060	94,710	100,760
San Diego	96,930	88,200	115,060	100,210
San Francisco	114,210	96,660	149,380	119,790
San Jose	110,070	129,600	154,740	135,850
Santa Barbara	119,520	98,640	139,590	120,010
San Rosa	88,830	84,870	107,360	109,320
Stockton	60,030	55,980	71,500	65,340
Vallejo	83,520	75,960	102,740	91,410
Other	73,530	80,100	99,110	92,950
Colorado				
Denver	72,000	63,180	76,230	93,940
Other	70,650	49,410	89,540	62,920
Connecticut				
Bridgeport	66,330	75,600	82,830	97,570
Danbury	82,170	70,290	101,860	96,800
Hartford	75,420	59,580	99,330	72,710
New Haven	67,230	55,980	79,200	71,610
Norwalk	107,820	109,440	168,190	137,390
Stanford	127,800	128,340	163,350	164,120
Other	76,680	53,820	99,990	73,370
Delaware				
Wilmington	a/	a/	77,550	66,440
Other	67,680	52,290	60,060	58,410
Florida				
Daytona Beach	49,950	43,380	66,880	48,290
Fort Lauderdale	62,550	63,270	95,700	86,570

EXHIBIT 11 EXHIBIT 11

	1982		1983	
AREA	NEW	EXISTING	NEW	EXISTING
Fort Myers	$ 65,700	$ 56,610	$ 92,180	$ 106,590
Lakeland	54,900	34,560	70,730	48,510
Miami	72,270	65,250	97,680	92,730
Orlando	55,890	43,200	76,120	54,670
Sarasota	61,110	62,640	94,380	75,130
Tampa	64,890	47,430	83,820	65,340
West Palm Beach	54,810	61,380	93,720	94,600
Other	59,580	45,180	76,450	63,140
Georgia				
Atlanta	79,920	60,300	98,120	73,700
Other	53,370	42,210	67,760	53,240
Hawaii				
Honolulu	105,300	98,910	a/	a/
Other	136,980	101,520	140,470	121,000
Idaho	70,650	60,390	100,430	81,840
Illinois				
Chicago	73,890	64,170	97,240	82,390
Other	66,060	39,060	78,540	52,800
Indiana				
Indianapolis	77,040	44,910	87,230	61,600
Other	50,850	41,490	68,860	39,380
Iowa	63,810	46,440	61,050	52,250
Kansas				
Wichita	64,710	45,540	73,700	86,020
Other	48,960	37,440	70,400	52,250
Kentucky				
Louisville	64,890	45,180	92,950	56,430
Other	52,560	39,870	72,490	54,560
Louisiana				
New Orleans	83,700	67,320	101,530	82,280
Other	69,210	50,580	81,290	63,360
Maine	66,150	52,380	61,600	59,620
Maryland				
Baltimore	76,050	52,830	85,800	83,930
Other	49,590	50,850	57,090	72,160
Massacusetts				
Boston	71,370	61,110	86,790	77,660
Other	58,230	48,780	71,170	56,430
Michigan				
Detroit	89,370	50,580	121,550	66,110
Other	69,750	40,500	80,410	56,980
Minnesota				
Minneapolis	83,880	61,920	103,070	81,620
Other	63,810	51,210	77,990	62,590
Mississippi	59,130	42,390	67,980	48,070
Missouri				
Kansas City	69,570	46,260	96,910	71,170
St. Louis	74,520	44,370	86,240	70,840

EXHIBIT 11 EXHIBIT 11

AREA	1982 NEW	1982 EXISTING	1983 NEW	1983 EXISTING
Other	$ 52,920	$ 42,390	$ 63,030	$ 49,390
Montana	71,370	56,070	70,950	66,880
Nebraska				
Lincoln	56,250	46,170	71,720	55,220
Other	45,630	36,000	57,090	45,980
Nevada	88,200	85,050	98,010	94,490
New Hampshire	56,070	48,960	62,700	63,690
New Jersey				
Long Branch	76,140	75,870	85,140	91,960
Newark	97,110	78,840	125,620	103,620
Other	69,750	63,900	86,680	74,360
New Mexico	58,410	41,760	91,960	57,530
New York				
Albany	61,920	42,930	78,430	51,480
Buffalo	63,000	44,730	82,500	51,260
Nassau	82,080	60,300	132,000	83,380
New York City	84,240	71,460	119,680	92,950
Rochester	63,450	42,390	76,340	56,540
Other	58,950	37,620	68,860	40,370
North Carolina				
Charlotte	69,750	53,370	81,400	69,190
Greensboro	79,920	41,220	84,480	51,370
Raleigh	66,150	43,920	87,340	47,630
Other	40,320	38,880	72,270	45,430
North Dakota	71,370	56,070	70,950	66,880
Ohio				
Cincinnati	68,850	52,740	92,400	56,980
Cleveland	77,580	53,640	117,370	71,280
Columbus	69,120	52,020	135,300	65,890
Dayton	76,140	39,960	103,070	49,280
Other	56,340	41,310	84,700	57,860
Oklahoma				
Oklahoma City	71,820	59,940	88,990	74,470
Tulsa	86,040	58,050	99,990	79,860
Other	60,840	41,580	88,110	60,720
Oregon				
Portland	68,850	55,620	99,660	80,520
Other	59,040	47,160	87,010	66,330
Pennsylvania				
Allentown	66,960	43,380	72,710	54,120
Harrisburgh	42,100	42,100	62,590	51,810
Northeast Counties	52,470	29,970	61,820	40,040
Philadelphia	63,270	46,890	86,570	59,950
Pittsburgh	69,390	52,020	99,660	60,500
Reading	63,090	36,810	75,240	44,000
Other	50,940	44,190	56,980	50,820

EXHIBIT 11 EXHIBIT 11

AREA	1982 NEW	1982 EXISTING	1983 NEW	1983 EXISTING
Rhode Island				
Providence	$ 64,620	$ 46,260	$ a/	$ a/
Other	66,150	52,380	76,890	53,130
South Carolina				
Columbia	72,450	58,050	88,440	73,700
Greenville	47,700	44,640	73,920	67,650
Other	61,470	48,510	80,960	56,870
South Dakota	71,370	56,070	70,950	66,880
Tennessee				
Chattanooga	53,100	54,270	74,800	62,590
Memphis	73,800	55,800	85,910	76,340
Nashville	60,030	56,610	74,030	62,810
Other	43,020	40,590	71,720	56,870
Texas				
Austin	70,200	63,720	95,370	81,180
Dallas	100,260	64,260	112,420	105,820
Houston	70,560	77,580	89,650	104,830
San Antonio	75,690	64,440	87,560	84,590
Other	57,780	45,450	80,410	55,990
Utah				
Salt Lake City	68,940	48,870	81,620	66,550
Other	82,530	49,410	68,090	60,610
Vermont	52,560	43,110	61,600	59,620
Virginia				
Norfolk	76,950	54,630	95,920	59,730
Richmond	60,750	54,360	77,220	58,410
Other	64,350	44,820	62,700	59,180
Washington				
Seattle	68,760	68,850	96,800	89,210
Other	65,340	51,660	85,030	62,810
West Virginia	50,400	45,810	61,600	55,990
Wisconsin	63,270	49,680	77,110	56,320
Wyoming	71,370	56,070	70,950	66,880
District of Columbia	90,090	83,880	120,010	112,090

a/ Not specified

EXHIBIT 12 EXHIBIT 12

Comparison of Mortgage Revenue Bond Income Limits and Median Income in Selected Localities
(family of four)

Localities	1983 HUD Median Incomes	1982 Revenue Bond Income Limit a/
Austin, TX	27,900	38,000
Baton Rouge, LA	28,300	40,000
Boise City, ID	26,800	33,000
Buffalo, NY	25,700	Unlimited
Colorado Springs, CO	24,100	32,000
Great Falls, MT	25,300	31,500
Little Rock, AR	24,700	36,000
Oklahoma City, OK	27,600	47,300
Portland, ME	25,600	27,000
Wilmington, DE	28,900	37,500

a/ In many instances 1983 state mortgage revenue bond income limits have increased above the 1982 limits even though interest rates have declined. For data on this topic see GAO's June 15, 1983 testimony before the House Ways and Means Committee on The Costs and Benefits of Single-Family Mortgage Revenue Bonds, exhibit 18.

EXHIBIT 13

EXHIBIT 13

PERCENT OF DOWNPAYMENT FOR MRB HOMEBUYERS IN EIGHT STATES

Percent of down payment	Percent of Homebuyers									Number of homebuyers
	Alaska	Connecticut	Idaho	Indiana	Kentucky	New York	Oklahoma	Virginia	Total	
0 - 9	88	46	1	42	71	2	66	88	50	4,447
10 - 19	7	27	91	27	23	58	20	8	29	2,598
20 - 29	3	15	5	17	6	24	9	3	12	1,102
30 - 39	1	7	2	6	0	8	3	1	5	394
40 - 49	*	3	1	4	0	4	1	0	2	204
50+	*	2	0	4	0	4	1	0	2	159
	100	100	100	100	100	100	100	100	100	8,904

*Less than 1/2 percent.

EXHIBIT 14

AMOUNT OF DOWNPAYMENT BY MRB HOMEBUYERS IN EIGHT STATES

Downpayment amount	Percent of Homebuyers									Number of homebuyers
	Alaska	Connecticut	Idaho	Indiana	Kentucky	New York	Oklahoma	Virginia	Total	
0- 5,000	69	51	70	69	89	39	71	90	63	5,571
5,001- 10,000	23	23	25	17	10	28	15	6	20	1,801
10,001- 15,000	3	11	3	8	1	13	6	3	8	685
15,001- 20,000	2	7	1	3	-	10	3	1	4	395
20,001- 25,000	1	4	1	2	-	4	2	*	2	203
25,001- 30,000	1	2	*	1	-	2	1	-	1	100
30,001- 35,000	1	1	*	*	-	2	1	-	1	70
35,001- 40,000	*	1	-	*	-	1	*	-	*	30
40,001- 45,000	*	*	-	*	-	1	1	-	*	21
45,001- 50,000	*	*	-	-	-	*	*	-	*	10
50,001- 75,000	*	*	-	-	-	*	*	-	*	17
75,001-100,000	-	-	-	-	-	-	-	-	-	1
100,000+										
	100	100	100	100	100	100	100	100	100	8,904

* Less than 1/2 percent

EXHIBIT 14

The CHAIRMAN. Do any one or the other gentlemen want to make any statement?

Mr. HIRSCHLER. No.

The CHAIRMAN. Let me say first of all, as I have indicated, I did read your statement last evening, and I have listened to the testimony. We believe—you can't address whether or not there should be a subsidy, but you did properly address if, in fact, there is a determination by Congress that there should be then we ought to have the most efficient one we can find.

I think the suggestions you have just made about the sunset and about the recertification, in particular, probably are good points. There may be others. We understand that there are probably a lot of areas in the bill that can be refined and modified because even though we spent some time trying to put it together, there are always areas that we may have overlooked, though the staff did good work.

The National Low Income Housing Coalition points out that many low-income individuals—renters with less than 80 percent of the median income—are apparently not served by the current mortgage bond program. The final GAO study data indicates that 75 percent of bond loans in 1982 were made to families above 100 percent of median income. Can mortgage bonds or mortgage credits serve those lower income families with incomes below 100 percent, 80 percent, or even 50 percent of median income? That has been one of the—I assume we will have witnesses this morning—criticisms that we are not serving the right people. Can we tailor our program to make certain that is done?

Mr. PEACH. Yes, I think the program can be tailored. And I think some of the provisions in the bill help to serve that kind of purpose. For example, the ability to use a sliding scale would help to serve that kind of purpose. I think the refundability provision also helps to serve that kind of purpose. I think it gives the State some incentive to look at targeting the program because they have the ability to use those kind of mechanisms and provide a greater credit to those people that are most in need.

And you did refer to some of the findings of our earlier study which did indicate that often the people qualifying for these loans under the mortgage revenue bond program were substantially in excess of the median income, and fairly high cost homes.

The CHAIRMAN. Has there been any judgment made why so much of the money goes in the present programs to families above the median income?

Mr. PEACH. It, again, gets into this targeting question. And as we looked at it, and we included a number of schedules in our report, it's both a question of income limits, which are substantially above the median income level in certain areas, and also purchase price limits, which have been escalating to a higher level. So it's just a question of where the program is targeted. It allows you to go into the higher priced limits in homes, and also to reach people whose income is substantially above the median for their area.

The CHAIRMAN. Did you make a determination on what the revenue loss was for each dollar benefit? What the cost to the Treasury was for each dollar in benefits to first time home buyers?

Mr. PEACH. All right. Let me ask Mr. Gainer.

Mr. **Gainer**. It is, of course, going to vary over time with the level of interest rates. We estimated that it's some place in the neighborhood of perhaps $4 for $1 in benefits in 1982. It would be more in the neighborhood of, let's say, $3 in cost for $1 in benefits in 1983. And it might be slightly lower, if interest rates continue to decline in 1984. It's hard to conceive of a circumstance in which the costs were not about twice the benefit under the mortgage revenue bond program however.

The **Chairman**. What accounts for that big discrepancy? Why does it cost the Treasury $4 or $3 to get $1 in benefit? I mean it seems to be a very inefficient program. It's better to just have a grant program than have this present program unless we can make it more efficient.

Mr. **Gainer**. Well, as you pointed out earlier, there are so many intermediaries in the program, including high income bond buyers who avoid a lot more in the way of taxes than is passed onto the home purchaser. You also have the basic inefficiency of bonding as a mechanism versus raising money in the mortgage market, which is much more efficient.

The **Chairman**. Those are the primary ingredients of a very inefficient program. I guess it's not a leading program to say that. It's not an efficient program, is it? The present program?

Mr. **Gainer**. We concluded that it's not.

The **Chairman**. Do you know of any more inefficient programs than this program?

Mr. **Peach**. I don't know whether we know of any more inefficient, but you mentioned the thought of a direct payment approach. And we included schedules on our earlier report that contrasted this program in terms of the cost versus the benefits going to the home buyers for both the mortgage revenue bond program, tax credit approach, and also a direct payment approach. And, of course, the other two show to be both much more efficient if you look at both 1981 and 1982 experience. It can vary, as Mr. Gainer pointed out, depending on the interest rate type situation as to exactly what the difference is.

The **Chairman**. And I know you don't study all the programs. But I think this program ought to be one cited in the Pentagon. When they talk about their inefficient ones, they can cite, well, there is one that is much more inefficient. It's called the mortgage bond program. And it might help Casp Weinberger sell his defense budget.

But I don't know if you had cost overruns in these programs or just all costs, and very little benefits.

But we will be working with GAO as we try to put together a package that will benefit home buyers. It seems to me what Congress responsibility is—it's not to benefit someone else. And, certainly, there is no one opposed to the profit motive in certain programs, but it shouldn't be.

I think Treasury indicated about a third of the intermediaries. What is your figure on that? Half?

Mr. **Gainer**. In earlier testimony, we had two estimates. One was for the 1982 program where we thought it was about a fourth of the benefits going to households. And in the estimate for 1983, about 60 percent of the benefits going to intermediaries rather than to homeowners.

The CHAIRMAN. In 1983?

Mr. GAINER. Our estimate for 1983 is that 60 percent of the benefits would go to intermediaries and bondholders rather than to the homeowner.

The CHAIRMAN. So 60 percent of the benefits go to intermediaries and only 40 percent to the homeowners. That it would seem to me that everybody ought to be getting together on some more efficient program, even though some have a very special interest. And I don't quarrel with that except there is also the public interest, and there is also a big, big deficit out there that's frightening. In fact, they are so frightened, they can't act on it. They are stiff, including the White House.

Thank you very much.

Mr. PEACH. Thank you.

The CHAIRMAN. Our next group will be a panel consisting of Joe Morris, president of Columbia Savings Association, Emporia, Kans., on behalf of the United States League of Savings; Ronnie J. Wynn, president of Colonial Mortgage Co., Montgomery, Ala., vice chairman, legislative committee, Mortgage Bankers Association; Mr. Smith, executive vice president of Ohio Association of Realtors; Cushing Dolbeare, president of National Low Income Housing Coalition.

I guess, Joe, you are first.

And, again, I might suggest, since I have read your statements, and I'm the only one here, and I assume you read them before you came—if not, we are in real trouble—that maybe you could summarize very quickly. And we may have some questions.

STATEMENT OF JOE C. MORRIS, PRESIDENT, COLUMBIA SAVINGS ASSOCIATION, EMPORIA, KAN., ON BEHALF OF THE UNITED STATES LEAGUE OF SAVINGS INSTITUTIONS, WASHINGTON, D.C.

Mr. MORRIS. Thank you, Mr. Chairman. My name is Joe Morris from Emporia, Kans., and I appear on behalf of the United States League of Savings Institutions.

Mr. Chairman, I am pleased to announce the support of the United States League for the mortgage credit certificate proposal, Senate bill 1598. In our, view, this approach to homeownership subsidy is far more efficient and potentially less costly to the Treasury than existing mortgage revenue bond programs. The flexibility of its design can make it possible to better serve households which cannot otherwise qualify for unsubsidized home loans. This should be a foremost objective of housing subsidy programs. It is one not as well accomplished by the tax exempt bond finance programs.

Indeed, we would support an income limitation and tighter purchase price restrictions to assure that the general revenue bond authority, if extended, would better meet that public policy purpose.

Again, I compliment the sponsors of S. 1598 for designing a better program for making homeownership possible.

I've appreciated this opportunity to present the views of the United States League, and look forward to your questions.

[The prepared statement of Joe E. Morris follows:]

STATEMENT OF

JOE C. MORRIS, BEFORE THE

SENATE COMMITTEE ON FINANCE

September 13, 1983

MR. CHAIRMAN:

My name is Joe C. Morris and I am President of Columbia Savings Association of Emporia, Kansas. I appear today on behalf of the United States League of Savings Institutions*, where I serve as Chairman of the Corporate Tax Issues Committee.

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*The U.S. League of Savings Institutions, formerly the U.S. League of Savings Associations, has a membership of 3,500 companies representing over 99% of the assets of the $730 billion savings and loan business. League membership includes all types of associations -- Federal and state-chartered, stock and mutual. Recently, many prominent savings banks have joined the League as members. The principal officers are: Leonard Shane, Chairman, Huntington Beach, California; Paul Prior, Vice Chairman, New Castle, Indiana; William O'Connell, President, Chicago, Illinois; Stuart Davis, Legislative Chairman, Beverly Hills, California; Roy Green, Executive Vice President, Washington, D.C., Phil Gasteyer, Legislative Counsel; Coleman O'Brien, Associate Legislative Counsel. League headquarters are at 111 East Wacker Dr., Chicago, Illinois 60601. The Washington Office is located at 1709 New York Avenue, N.W., Washington, D.C. 20006. Telephone: (202) 637-8900.

I am pleased today to announce the League's support for S. 1598, the First-time Homebuyer Assistance Act of 1983, and to compliment Senators Dole, Long, Domenici, Bradley, Tower, Wallop and Heinz on its introduction. From our perspective as the principal private-sector source of home financing, the option of using mortgage credit certificates is a more efficient and equitable way to make home ownership possible for Americans otherwise unable to achieve that goal than continuation of the tax-exempt mortgage revenue bond programs. Indeed, we would not oppose replacement of revenue bond-financed mortgages with the federal tax credit envisioned by S. 1598.

And, as has been demonstrated so well by the General Accounting Office, there are important savings to be achieved (in terms of revenues sacrificed) by the U.S. Government through use of this new option by State and local housing finance agencies. As is well known, the savings institution business is particularly sensitive to interest-rate pressures. To the degree that Federal deficits are reduced and interest rates generally are held in check, our ability to supply mortgage credit to the overall housing market is improved.

As a general proposition, housing subsidies should seek to encourage homeownership whenever possible and assure that the highest possible percentage of the subsidy reaches the intended beneficiary -- and is not siphoned away to cover transactions and adminstrative costs.

COMPARING MORTGAGE REVENUE BONDS AND CREDIT CERTIFICATES

Mortgage revenue bonds (MRBs) and the mortgage credit certificates (MCCs) envisioned by S. 1598 are both subsidy programs designed to make housing more affordable by reducing mortgage payments. The two programs, however, accomplish this in very different ways. Revenue bond financing allows States and municipalities to offer below market-rate loans (and thus, lower monthly payments) by channeling lower-cost, tax-exempt bond proceeds into mortgages. The MCCs, on the other hand, lower monthly payments by allowing qualified homebuyers to claim an annual income tax credit from 10% up to 50% on the interest they pay on a conventional home loan. Recipients could choose the credit as a tax refund or adjust payroll witholding (or estimated payments) by the amount of the credit. (The credit is refundable for families with little or no tax liability in a particular year.)

In essence, MRB programs are indirect subsidies channeled through the tax-exempt bond market while the MCC concept generates direct subsidies to homeowners. This structural difference leads to two distinct advantages for the mortgage credit certificates compared to the revenue bond-financed mortgages.

From a public policy standpoint, despite their popularity, mortgage revenue bond programs have been disappointing. The preliminary report issued in April by the General Accounting Office found that "the objective of subsidizing low- and moderate-income households who need assistance to purchase homes is not generally achieved." That preliminary examination showed that over half of the beneficiaries in programs studied had family incomes above the median for their areas. While revenue bond programs may have affected the "timing" of home purchase, it is questionable whether they have significantly opened up the opportunities for home ownership -- with all of the social and economc benefits that implies -- to families otherwise denied by the private marketplace.

The GAO also concluded that only 87% of bond proceeds are actually lent to homebuyers. A full 13% of funds raised were spent for bond underwriting, trustee fees, reserve funds and administrative costs. It was then determined that because MRB financing reduces the beneficiaries' loan interest rates by 15% below market rates, the magnitude of subsidy provided averages 13.05% (87% x 15%).

In designing the mortgage credit alternative, the sponsors of S. 1598 wish not only to eliminate the inefficiency, but to expand the subsidy. Therefore, the MCC subsidy rate is set at 14.35% (13.05% increased by 10%). For every dollar in revenue bond issuing authority surrendered under a State's volume limits, a State may issue 14.35¢ of mortage credit certificates to be claimed on Federal tax returns. The innovative approach of S. 1598 allows some flexibility here: by adjusting the rate on MCCs distributed, a State agency can tailor its program to different segments of the homebuying public and adjust the number of borrowers served.

To better understand the efficiency of the MCCs, Table 1 compares a $100 million revenue bond program with the tax credit alternative set forth by S. 1598. (The analysis assumes that families can spend 28% of their income on mortgage payments.)

Using a 14.35% tax credit for $100 million in mortgages, over a broad range of market interest rates, the MCC program could increase the number of beneficiaries by an average of 14% over those served by revenue bonds. Note, too, that MCCs make homes slightly more affordable.

The efficincy of a subsidy program can be measured in yet another way. If the subsidy provided to each beneficiary is too little to make available housing affordable, then the subsidy is inefficient.

Current revenue bond programs generally provide one subsidy rate to all who qualify, regardless of income -- making them more meaningful to applicants in higher tax brackets. The mortgage credit certificate, however, can be designed so that larger credits (up to a 50%-of-interest maximum) can be distributed to needier families. For example, operating within a $14.35 million credit-issuing volume limitation, a State could lend $100 million in mortgages with 14.35% credit certificates or $57.4 million in mortgages with 25% credit certificates. In doing this the State would reduce the number of mortgagors assisted -- but it would also increase the affordable home price of those who were served from an average of $28,300 to $33,200, a jump of over 17%.

Table 1 also demonstrates the second major advantage the direct tax credit could provide in comparison with the revenue bond-financed mortgages. In estimating MCC costs to the Federal Government, the actual amount of the tax credit is used; for MRBs, "static" tax losses are estimated (assuming municipal bond investors are high-income individuals in the 50% tax bracket and that the spread between tax-exempt and taxable bonds is 350 basis points). Parenthetically, we agree with the frequent criticisms that static tax loss analysis unfairly disregards the important revenue gains which flow from tax code incentives for savings and housing. For comparison, the table assumes a 12-year life for the mortgages involved.

During the life of the certificates, total allowable tax credits would cost the U.S. Government an average of $20.84 million per $100 million in mortgages originated over the interest rate ranges shown in Table 1. Revenue bond-financed mortgages, on the other hand, would cost the Treasury $78 million over the same period. This would mean an average saving to the Treasury (under the scenarios goven in the table) of about $57 million if the S. 1598 alternative replaced the mortgage revenue bonds entirely.

Approximately $10 billion in mortgage revenue bonds were issued in the 1981-81 period; had direct Federal income tax credits been used instead, the static tax savings would have approached $5.7 billion (over a 12-year period).

MORTGAGE LENDER CONSIDERATIONS

The U.S. League is gratified that the design of the mortgage credit certificate alternative contemplates market-rate mortgages originated and serviced by private-sector lending institutions. There have been numerous dislocations in markets around the country over the past several years when revenue bond-financed loans became available. As Chairman Dole's introductory statement recognized, there have even been times when market rates plunged rapidly -- and lenders found themselves committed to distribute loans financed by tax-exempt issues carrying higher rates that those dictated by the changed marketplace for conventional or FHA mortgages.

Theoretically, under the design of S. 1598, a lending institution would not need to know in many cases that a loan applicant had qualified with the State or local housing authority to receive the Federal tax credit certificate. However, if the certificate option is to broaden the opportunities for homeownership -- and serve families who would not otherwise qualify for a mortgage -- we would anticipate that the lender would need to have that knowledge in advance as part of its loan "underwriting" process. It is reasonable to assume that the State or municipal mortgage finance authorities will depend upon savings institutions and other home lenders to help with the initial processing of MCC applicants, just as they do borrowers receiving revenue bond-financed loans.

This raises a couple of practical considerations. Application processing does impose costs on lending institutions. Under revenue bond programs, State agencies compensate lenders for their efforts. Allowance will need to be made for some similar arrangement with the MCCs.

Another consideration is the "timing" of the receipt of the subsidy by the beneficiary. If the applicant is marginal, and needs the dollar-and-cents relief made possible by the subsidized loan to meet his or her monthly payment, a delay until taxes are paid and a credit is claimed could be a deterrent to qualification. I would imagine that most lending institutions would counsel MCC applicants to make an immediate adjustment in their payroll witholding or estimated tax obligations so that disposable family income would be available to meet the first monthly payment of their new home purchase.

In this regard, use of the standardized loan documents of the Federal National Mortgage Association and the Federal Hme Loan Mortgage Corporation are now commonplace among private-sector lenders. In their underwriting guidelines, FNMA/FHLMC standards are phrased in terms of an applicant's "gross" income. Perhaps your Committee Report or other appropriate instruction could encourage those agencies to recognize the need to adjust for mortgage credit certificates, when available.

Finally, S. 1598 contemplates that the various restrictions imposed on mortgage revenue bond programs in 1980 would remain in place for the MCC option. One such restriction states that at least 20% of the proceeds of bond issues must be made available for owner-financing in "targeted areas", generally neighborhoods of economic distress. Assuming that restriction would continue to apply for MCCs, it may be somewhat more difficult for an individual lending institution, dealing with case-by-case applicants, to comply with that guideline than it is under the present revenue bond programs where a "block" of loans are allocated to loan originators all at once.

I would anticipate that appropriate legislative history, rather than further changes in the statutory language of S. 1598, would be sufficient to address these concerns.

INCOME, PURCHASE PRICE LIMITATIONS

While we acknowledge the very real political pressures for continuing unchanged the mortgage revenue bond programs beyond their scheduled termination December 31, the U.S. League recommends that your Committee reexamine the basic restrictions imposed by the Mortgage Subsidy Bond Tax Act if 1980.

As cited above, the preliminary study of the General Accounting Office concludes that the purchase price limit of the 1980 Federal law and income limits set by the States have not been effective in directing assistance to households which otherwise could not achieve home ownership. Since these programs are ultimately funded by revenue foregone from all

Federal taxpayers, we believe that some upper income limit established by the U.S. Congress would be an improvement. The 115%-of-area-median income ceiling considered, but eventually discarded, during development of the 1980 law would be a reasonable (if not generous) limit in our view.

In addition, the GAO study suggests that the typical beneficiary of the tax-exempt cut-rate mortgage bond financing could well have qualified for an unsubsidized FHA-insured home loan. In recent years, FHA has broadened its programs to serve an even larger spectrum of buyers, particularly through use of graduated payment mortgages. Therefore, it would seem appropriate to relate the price-of-home limitation of existing law to the limits which apply to FHA programs. So that the two types of federal incentives do not duplicate one another, we would recommend that the revenue bond purchase-price restrictions be set at equivalent loan amounts for, say, 80% of FHA 203(b) limits.

Imposition of an income ceiling and a tighter purchase-price limitation would do a better job in assuring that these housing subsidies do indeed reach those who otherwise could not afford to own a home.

CONCLUSION

In conclusion, Mr. Chairman, I am pleased to announce the support of our organization for the mortgage credit certificate proposal of S. 1598. In our view, this innovative approach to homeownership subsidy is far more efficient and potentially less costly to the Treasury than existing motgage revenue bond programs. The flexibility of its design can make it possible to better serve the households which cannot otherwise qualify for unsubsidized home loans -- the foremost objective, in our opinion, of subsidy programs. Indeed, we would support an income limitation and tighter purchase-price restriction to assure that the general revenue bond authority, if extended, would better meet that public policy purpose.

Again, I compliment the sponsors of S. 1598 for designing a "better mousetrap" for making home ownership possible.

I have appreciated this opportunity to present the views of the U.S. League and look forward to your questions.

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Table 1: Mortgage Revenue Bond Financing vs. Mortgage Credit Certificates(1)

	Market Rates							
	11%		12%		13%		14%	
	MRB(2)	MCC	MRB(2)	MCC	MRB(2)	MCC	MRB(2)	MCC
Annual P&I Payments(3)	2796	3246	2796	3246	2796	3252	2796	3256
Annual Interest Payments	2618	3118	2657	3151	2688	3181	2711	3203
Tax Credit (14.35%)	0	447	0	452	0	456	0	460
Net Annual Payments	2796	2799	2796	2794	2796	2796	2796	2796
Affordable Mortgage(4)	28075	28400	26110	26300	24370	24500	22820	22900
Affordable Home Price	31194	31555	29011	29222	27077	27222	25355	25444
Number of of Beneficiaries	3099	3512	3332	3802	3570	4082	3812	4367
Cost to U.S. Treasury per Beneficiary(5)	$22,690	$5,171	$22,653	$5,247	$22,588	$5,323	$22,476	$5,386
Total cost to U.S. Treasury(5) ($Millions)	$70.32	$18.16	$75.48	$19.95	$80.64	$21.73	$85.68	$23.52

Note:
1) Comparisons for $100 million in issuance authority, using $10,000 family income as benchmark.
2) MRB loans made at 15% below market interest rates.
3) Affordable P&I payments set at 28% of income.
4) Loans made at 90% of home price.
5) Treasury losses calculated on foregone revenues from taxable investments made at 35 basis points above tax-free yields; 50% marginal tax bracket.

Source: U.S. League of Savings Institutions, Economics Dept.

STATEMENT OF MR. RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE CO., MONTGOMERY, ALA., AND VICE CHAIRMAN, LEGISLATIVE COMMITTEE, MORTGAGE BANKERS ASSOCIATION, WASHINGTON, D.C.

The CHAIRMAN. Mr. Wynn.

Mr. WYNN. Mr. Chairman, my name is Ronnie J. Wynn. I'm President of Colonial Mortgage Co., a mortgage banking firm headquartered in Montgomery, Ala. I'm also vice chairman of the Mortgage Bankers Association of America's NBA Legislative Committee.

NBA appreciates the opportunity to appear before you today to express our views on S. 1598, the First Time Homebuyers Assistance Act.

The inefficiencies of tax-exempt revenue bonds for housing are recognized even by those of us who support their use, and who are involved in the operation of mortgage programs financed by such bonds. The optional alternative of mortgage credit certificates, which S. 1598 would provide, appears to us to be a significant improvement in the system of delivering financial assistance to potential home buyers who could not otherwise purchase adequate housing.

NBA, therefore, supports the concept of the bill. However, we would urge that it be amended to assure that home buyers would be free to use their mortgage credit certificates with all types of lenders, and to assure that States target mortgage credit certificates and revenue bond proceeds to individuals and families with lower incomes than are eligible under current bond programs.

In reaching the conclusion that mortgage credit certifications, as proposed in S. 1598, appear to be a more efficient system of delivering assistance to home buyers needing assistance, NBA compared tax exempt revenue bonds for housing with mortgage credit certificates from several aspects. An analysis of that comparison is contained in NBA's written statement, which we would request be included in the record.

The CHAIRMAN. It will be included in the record, as all statements will be included in full.

And I thank you.

[The prepared statement of Ronnie J. Wynn follows:]

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN

PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf
of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

COMMITTEE ON FINANCE

of the

UNITED STATES SENATE

Hearings on

S 1598
"First Time Homebuyer Assistance Act"

September 13, 1983

Mr. Chairman and Members of the Committee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company, a mortgage banking firm headquartered in Montgomery, Alabama. I am also vice chairman of the Mortgage Bankers Association of America's (MBA) Legislative Committee. MBA* is the trade association of the Nation's mortgage banking industry. Accompanying me are Burton C. Wood, MBA's Legislative Counsel, and William E. Cumberland, MBA's General Counsel.

MBA appreciates the opportunity to appear before you today to express our views on S 1598, the "First Time Homebuyer Assistance Act," which you introduced, along with Senators Long, Domenici, Bradley, Wallop, and Tower. The inefficiencies of tax-exempt revenue bonds for housing are recognized, even by those of us who support their use and who are involved in the operation of mortgage programs financed by such bonds. The optional alternative of mortgage credit certificates, which S 1598 would provide, appears to us to be a significant improvement in the system of delivering financial assistance to potential homebuyers who could not otherwise purchase adequate housing. MBA, therefore, supports the concept of the bill. However, we would urge that it be amended to assure that homebuyers would be free to use their mortgage credit certificates with all types of lenders and to assure that states target mortgage credit certificates and revenue bond proceeds to individuals and families with lower incomes than are eligible under current bond programs.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of mortgage and real estate finance. MBA's membership is comprised of mortgage originators, mortgage investors, and a variety of industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, financing, selling, and servicing real estate investment portfolios. Members include:

- Mortgage Banking Companies
- Mortgage Insurance Companies
- Life Insurance Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500

In reaching the conclusion that mortgage credit certificates, as proposed in S 1598, appear to be a more efficient system for delivering assistance to homebuyers needing assistance, MBA compared tax-exempt revenue bonds for housing with mortgage credit certificates from several aspects. The following is an analysis of that comparison:

EFFECT OF TIMING OF BOND ISSUANCE

From a mortgage lender's point of view, the most immediately noticeable inefficiency in the tax-exempt mortgage revenue bonds for housing programs is the need to accommodate the timing of the issuance of the bonds. Revenue bonds provide funds in large blocks, at one time, which is determined by the capital markets, requiring that mortgages be funded quickly, usually on a first-come, first-served basis. If the timing is not right, homebuyers will not benefit, and participating mortgage lenders could suffer substantial losses.

Size of Bond Issues. Because of the many intricate administrative and legal steps required to issue and market revenue bonds, and because of the nature of the capital markets, revenue bonds must be issued in amounts measured in millions or hundreds of millions of dollars. The revenue bond market is not equipped to provide to a state housing agency a variable stream of capital funds on a daily or weekly basis to match the varying volume of mortgage loans made to home buyers.

The relatively large bond issue proceeds cannot be held for long periods and distributed in an administratively controlled manner over time because mortgage interest income is needed to supply the interest payments on the bonds. Bond issuing agencies must put the proceeds into mortgages promptly because the Federal arbitrage law restricts the investment income a state housing agency may earn from investing tax-exempt revenue bond proceeds in other types of securities, and there is always a chance that market interest rates on mortgages may drop.

Allocation Methods. Typically, state housing agencies make revenue bond proceeds available to borrowers through established lenders, who are experienced in making, or "originating," home mortgages. Being able to use bond revenue proceeds to make loans to customers is important to a mortgage lender, because these loans can be made at an interest rate that is less than the interest rates that must be charged to make loans funded with conventional, non tax-exempt capital. Obviously, borrowers are attracted by the lower rate, but the lender's ability to offer the fullest spectrum of loan terms is also important to home builders and real estate brokers who want a reliable place to refer buyers so that their transactions will close. State agencies have allocated bond proceeds in a variety of ways. Some have limited access to the proceeds to state and federally chartered depository institutions, or in other ways have excluded certain types of lenders, such as mortgage bankers. More typically, the agencies have called for bids from lenders, or required commitment fees from lenders to reserve the availability of the bond proceeds for a particular lender.

Impact of Market Changes. If, as happened last year, interest rates in the general capital markets fall between the date a revenue bond is issued and the dates the proceeds are used to make mortgage loans, the interest rates on the mortgages become unattractive to borrowers and the bond proceeds are not drawn down. This results from the structural need for the state agency to set the mortgage interest rate at the time of issuing the bonds and in relation to the interest rate that the bonds provide. The adverse consequences of a falling interest rate are several. Homebuyers do not have tax-exempt bond assistance available to them until another bond issuance is prepared and marketed; bond holders are paid off earlier than anticipated and desired; and participating lenders have paid the agency a useless allocation or commitment fee. The amount of the fee is effectively lost.

Selection Process Inhibited. Another result of the need of the state housing agency to convert the bond proceeds into mortgages as quickly as possible is that an agency is not permitted to collect applications from all who might be eligible and interested in acquiring a house at that time, and to weigh the relative merits of each case. General eligibility requirements are established, and those eligible are served on a first-come, first-served basis.

Timing of Mortgage Credit Certificates. As compared with tax-exempt mortgage revenue bonds, a mortgage credit certificate program could be much more efficient. The orderly flow of the regular mortgage market would be available because loans could be funded from the full range of sources of capital. There would be no need for state agencies to distribute bond proceeds through lenders it believed would place the proceeds quickly because of the lender's nature or because the lender had advanced commitment fees. Finally, without time pressure, eligible individuals and families can be assisted on a comparison basis, in varying degrees, and can be assured, in advance of their search for a home to buy, that the assistance will be there when its needed.

ADMINISTRATIVE COSTS

Issuing Revenue Bonds. According to the April 1, 1983 Report to the Chairman of the Senate Finance Committee, "The Costs and Benefits of Single Family Mortgage Revenue Bonds: Preliminary Report," an average of only 87 percent of mortgage bond proceeds are actually lent to homebuyers. The 13 percent difference goes for administrative purposes, including legal fees, underwriting fees, handling fees, and the establishment of a reserve. Because the terms of revenue bonds may be changed from issue to issue, the capital markets treat each issuance as a discrete one, requiring independent formality. Also, some state and local housing authorities are relatively inexperienced in bond issuance. The adverse cost impact of each of these factors is likely to decrease over time, but they are inherent elements of a tax-exempt revenue bond system.

Distribution Costs. Just as the variations between issues of the bonds create costs, so do the variation in the terms of the underlying mortgages and in the requirements that participating mortgage lenders must meet. Loan origination criteria and loan servicing standards differ from agency to agency and from issue to issue. The complexity of the standards and the risk of non-compliance increase the costs of participating mortgage lenders, especially those who operate nationally or regionally.

The Regular Mortgage Market. With mortgage credit certificates, the lenders can obtain funds using consumer deposits or the substantially routinized nationwide mortgage markets. Mortgage-backed securities guaranteed by the Government National Mortgage Association (GNMA-MBS) are being used to bring billions of dollars to the home financing market, yet the issuance of a GNMA-MBS requires no special bond counsel or investment banker fees because the GNMA-MBS is a standard instrument whose terms cannot be varied by the issuing mortgage lender. The same is true for mortgage-backed securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan

Mortgage Corporation (FHLMC). And, similarly, influenced by the presence of FNMA and FHLMC as sources of capital, and guided by the Federal Housing Administration (FHA) and the Veterans Administration (VA), the regular mortgage market has developed a set of origination and servicing criteria that are standard nationwide. Of course, standardized securities and standardized origination and servicing criteria incur administrative costs, but to a lesser extent than is now incurred in the tax-exempt revenue bond system.

Providing for Administrative Expenses. As noted above, a portion of the bond proceeds are used by state agencies to pay the costs of administering the program. The mortgage credit certificate proposal contains no such provision for internal program allowance for administrative costs. Some policing would be performed by the Internal Revenue Service, but the expense incurred by the state in preparing and distributing the certificates must be paid for from external sources. Failure to provide for administrative costs might cause some states to avoid use of the mortgage credit certificate program.

OTHER FACTORS

Other factors have been cited as meriting passage of the First Time Homebuyers Assistance Act, which are not within the particular experience of mortgage lenders but which do appear important. As investments, tax-exempt revenue bonds for housing appeal to high-bracket taxpayers with the result that, by the General Accounting Office report estimate (referred to earlier in the testimony), $3,500 interest subsidy over the full mortgage term will result in a $13,000 loss of Federal tax revenue. Revenue bonds for housing compete for the interest of the same limited number of investors who seek tax-exempt income with revenue bonds for public works projects, such as water and sanitation plants, driving the costs higher for these facilities, which benefit and are paid for by all the community. Neither of these negative characteristics would be present in a program of mortgage credit certificates.

MBA'S CONCERNS

Participation by All Lenders. Under the authority to issue tax-exempt revenue bonds for housing, several state housing agencies have allowed only state or federally chartered depository institutions to make loans funded with the bond proceeds. In those states, mortgage bankers were excluded from the programs. Mortgage bankers, the experts at using the secondary mortgage market to tap the national capital markets, have become a major source of mortgage finance, generally equalling the banks and the thrift institutions. MBA believes that the most effective use of mortgage credit certificates would be to give them to a qualified individual to use wherever and with whichever lender he or she wishes.

To assure that the homebuyers who are assisted by the mortgage credit certificates obtain the best mortgage terms, MBA urges Congress specifically to prohibit any limitation or restriction on the type of lender that may provide qualifying mortgages for the mortgage credit program.

Targeting. MBA opposed the use of municipal tax-exempt revenue bonds to fund home ownership when such bonds mushroomed in 1978 and were made available to high-income families. The rapid proliferation of these bonds for home mortgages allowed the substitution of public funds for private funds in the marketplace. MBA no longer categorically opposes the issuance of home mortgage revenue bonds. When properly administered and properly targeted, revenue bond programs can provide hombuyers with needed financing and mortgage lenders with a new source of business opportunities, without infringing upon markets that can be served without government subsidy. On May 17, 1983, MBA's Board of Governors adopted a revised statement of policy on the subject of tax-exempt bonds for housing, as follows:

> "MBA supports using municipal tax-exempt bond issues to provide funds for home mortgages, provided such issues are targeted toward meeting the needs of the disadvantaged, that is, the low-income, the elderly, and the handicapped. Further, such programs should be simplified and strict standards applied to make them less costly to homeowners and easier to work with for all participants. Moreover, if used, such programs should only be available to housing finance agencies which allow all types of originators and servicers to participate in all their programs."

Preliminary findings of a study being conducted by the General Accounting Office (GAO) raise a question whether revenue bonds for housing are currently restricted so as adequately to targeted the proceeds to disadvantaged persons. In its April 1, 1983 report, cited earlier, the GAO found "that most subsidized home loans were not made to low- and moderate-income households in need of assistance, but rather to those who probably could have purchased homes without assistance." (page 3).

S 1598 simply incorporates the current Federal statutory limits on transactions that are eligible for financing with the proceeds of tax-exempt revenue bonds, without further targeting.

MBA urges that the Federal restrictions on mortgage credit certificates, and on tax-exempt revenue bonds, as well, be tightened to target the assistance to individuals and families with incomes lower than are currently eligible for assistance.

Termination and Recertification. There are two aspects of the ending of assistance under the mortgage credit certificate program that are not addressed or are unclear in S 1598. There is no provision protecting lenders, who have relied on the continued validity of the credit certificate, from a State terminating the certificate on the grounds that it was fraudulently obtained, or other grounds unrelated to the ability of the homeowner to pay the mortgage. MBA suggests that a provision be added that the certificates are uncontestable once issued and used to obtain a loan.

There is no provision for recertification by the state agency of low income status of the homeowner to assure targeting. MBA suggests that a recertification requirement be considered. Perhaps the credit should automatically reduce in five year stages unless the homeowner provided requalification information to the State to renew the full credit.

CONCLUSION

MBA appreciates the opportunity to testify regarding the First Time Homebuyer Assistance Act. S 1598 proposes an interesting new initiative, which we are continuing to study and which likely will be further refined by the Committee and the Congress. We would be pleased to assist you as you continue to consider the proposal, and to furnish any additional information that might be needed.

STATEMENT OF ALMON R. SMITH, EXECUTIVE VICE PRESIDENT, OHIO ASSOCIATION OF REALTORS, AND MEMBER, OHIO HOUSING FINANCE AGENCY, ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS, WASHINGTON, D.C.

The CHAIRMAN. Mr. Smith.

Mr. SMITH. Senator, my name is Almon R. Smith. I'm the executive vice president of the Ohio Association of Realtors. I'm also an appointed member by Governor Saless, one of the two Republicans appointed to the Ohio Housing Finance Agency, the organization which was created to implement the mortgage revenue bond program in Ohio. This is Ohio's first year for mortgage revenue bonds, and so I cannot speak in terms of estimates. I can only speak in terms of reality.

In the 3 months time since the housing agency was created, the State of Ohio has sold 300 million dollars' worth of single family mortgage revenue bonds. This sale was the largest single mortage Revene bond issue in the history of the United States.

The interest rate on the resulting loans to the first-time home buyers in Ohio was 9.98 percent. This interest rate occurred at a time when the going convertional mortage market interest rate was between 12½ and 13 percent. This represents a considerable difference in interest rates, as some others have indicated and the difference represents direct benefits to the qualifying home buyers. The State of Ohio then sold another 110 million dollars worth of mortgage revenue bonds in July. The resulting interest rate or this issue ended up at 10.6 percent compared to a then 13½ to 13¾ percent market rate.

Also, in connection with the first sale of 300 million dollars' worth of bonds, $292 million or 97.4 percent were for mortgages. It was only that differential of a little over 2 percent that went for other costs, other than the mortgages. On the second issue 95 percent of the issue went to mortgage loans.

The average income of the person purchasing a home under these issues was $28,371. The average home purchase price was $46,726. These statistics are all based on the first 1,087 loans that were closed.

By our calculations what that saved the median income purchaser if he or she held a home himself or sold it on a loan assumption, which this program does allow to another first time homebuyer, saved him over $10,800 in monthly payments if he held it 10 years. If he held it 30 years, that was over $32,000.

The CHAIRMAN. But what does it cost the Treasury?

Mr. SMITH. The cost to the Treasury, Senator, is dependent upon the figures that are used as to determinations as to whether the money that went into the revenue bonds would have come from sources that were paying income tax, or whether they would have come from other sources that were already investing in those programs. Also, there was a question as to whether or not the tax impact of the business activity which is created in the building and purchasing of homes was also included in those figures.

I should point out that we speak as proponents of Senate bill 1598. And we believe that it does allow a viable alternative. We think that that is good. We do see a potential weakness during periods of time when there is tight money, and that does occur from time to time. That perhaps the normal financial institutions are not able to obtain the funds necessary for housing, and this would not meet that need.

Therefore, we do support this as an alternative to mortgage revenue bonds to be done together. I had other comments. I realize my time is up. I will be more than happy to answer any questions.

[The prepared statement of Almon R. Smith follows:]

STATEMENT
on behalf of the
NATIONAL ASSOCIATION OF REALTORS®
regarding
THE FIRST TIME HOMEBUYER ASSISTANCE ACT OF 1983
by
Almon R. Smith
September 13, 1983

I am Almon R. Smith, Executive Vice President of the Ohio Association of Realtors® and a member of the Ohio Housing Finance Agency. On behalf of the nearly 600,000 members of the NATIONAL ASSOCIATION OF REALTORS®, we appreciate this opportunity to present our views on S. 1598, the First Time Homebuyer Assistance Act of 1983.

SUMMARY

The NATIONAL ASSOCIATION OF REALTORS® commends the sponsors of this legislation for seeking to improve the availability of home financing assistance. We generally encourage proposals which increase homeownership opportunities, particularly opportunities for those discouraged from the market by high interest rates.

We support the concept of S. 1598, which assumes the proposed mortgage credit certificate program would serve as an alternative to a continued mortgage revenue bond program. The existing mortgage revenue bond program has proven its ability to provide below market financing in the form of fixed rate, level payment mortgages, even at times when such mortgages are extremely hard to find. Although the mortgage credit alternative proposed in S. 1598 would require acceptance of market available mortgage terms, we believe the program would provide welcome assistance to the homeownership affordability problems facing many potential homebuyers.

The NATIONAL ASSOCIATION OF REALTORS® urges that in consideration of this legislation, Congress reject any new restrictions in the mortgage revenue bond program and ensure that, if enacted, the mortgage credit certificate program fully track the mortgage revenue bond requirements. We do not support the provisions in S. 1598 which would limit individual mortgage interest deductions by the benefits claimed under the mortgage credit certificate program, and we would suggest that Congress clearly express the intention that mortgages carrying credit certificates be fully assumable in the secondary market.

BACKGROUND

In the late 1970s, as economic conditions reduced the availability of traditional home mortgage financing, the tax-exempt mortgage revenue bond method of raising housing investment capital developed. Since that time, the mortgage revenue bond program has successfully proven its ability to provide much needed, affordable housing capital to potential homebuyers who find themselves priced out of the housing market by high interest rates. For example, in 1982, when interest rates were prohibitively high, mortgage revenue bonds financed the purchase of approximately 80,000 new and 100,000 existing single family homes. This home sale activity resulted in nearly 100,000 new jobs and $800 million in additional tax revenue.

The NATIONAL ASSOCIATION OF REALTORS® supports the continuation of the existing mortgage revenue bond program, set to expire December 31, 1983, and we therefore urge prompt Congressional approval of H.R. 1176 and S. 137.

S. 1598, the legislation currently before this Committee, is designed in response to perceived inefficiencies in the mortgage revenue bond program. While we may question the extent of mortgage revenue bond inefficiency, we do not see reason at this time to oppose this legislation. We are pleased, in fact, that the introduction of this bill assumes a continued mortgage revenue bond program and again evidences Congressional recognition of the need for certain federal homebuyer assistance programs to offset the effects of high or rising mortgage interest rates.

As we understand the legislation, states and localities could elect on a yearly basis to trade in some or all of their annual mortgage revenue bond authority for authority to issue mortgage tax credit certificates. These certificates would entitle qualifying homebuyers to claim a refundable federal tax credit ranging, at the option of the issuing agency, between 10 percent and 50 percent of the individual's total annual mortgage interest payment. This could result in states issuing either all mortgage revenue bonds or all mortgage credit certificates or a state determined mixture of both bonds and certificates.

Under the legislation, the total state dollar amount of mortgage credit certificate authority would be determined by multiplying the amount of mortgage revenue bond authority foregone by 14.35 percent. The resulting dollar figure could then be allocated to as many qualifying homebuyers, in credit amounts ranging from 10 percent to 50 percent of interest payments, as the state issuing agency may determine.

Further, and significantly, S. 1598 would statutorily require an individual to reduce his or her mortgage interest tax deduction by the amount of any mortgage tax credit claimed under this program.

For states or localities which in 1983 issue less than their maximum mortgage revenue bond authority, a transitional five year phase-in of the mortgage credit certificate program would result.

Under the proposed transitional rule, the amount of mortgage revenue bond authority which a state could exchange for mortgage credit certificate authority would be limited to the volume of mortgage revenue bonds issued in 1983, increased each of the next five years by 25 percent of the remaining difference between the 1983 volume and the statutory amount. For example, a state with 1983 mortgage revenue bond authority of $200 million which issued only $100 million would, in 1984, be allowed to exchange only $125 million of mortgage revenue bond authority ($100 million plus 25 percent of the remaining statutory amount). In 1985, this amount would increase to $144 million and so on.

RECOMMENDATIONS

The NATIONAL ASSOCIATION OF REALTORS® has the following concerns, recommendations and comments regarding S. 1598.

PROGRAM QUALIFICATIONS

The NATIONAL ASSOCIATION OF REALTORS® is encouraged that this legislative proposal would determine mortgage credit certificate participation under precisely the same qualifications as exist under the mortgage revenue bond program. We supported the modest mortgage revenue bond program changes which Congress made last year, including liberalizing the arbitrage, first time homebuyer and purchase price limitations. Congress expressly intended that these changes allow tax-exempt home purchase finance programs to serve as counter-cyclical support for potential homebuyers priced out of the market by high interest rates. We would urge Congress to continue the federal mortgage revenue bond program qualifications as they currently exist.

SUBSIDY RATE LEVEL

Successful implementation of the mortgage credit certificate proposal depends on the duplication, or improvement, of benefits currently provided qualifying mortgage revenue bond homebuyers. Widely criticized General Accounting Office (GAO) data served as the basis in determining the 14.35 subsidy rate level proposed in S. 1598. There is genuine uncertainty regarding the amount of lendable proceeds which result from a single family bond issue and regarding the true average spread between mortgage revenue bond mortgage rates and conventional mortgage rates.

We do not offer a resolution to the criticisms at this time. We would be pleased, however, to work with the Committee staff in examining the GAO assumptions to develop a mortgage cost reduction under the credit proposal which matches the savings which the mortgage revenue bond program provides qualifying homebuyers.

MORTGAGE INTEREST DEDUCTION LIMITATION

The NATIONAL ASSOCIATION OF REALTORS® is opposed to statutory limitations on the full tax deductibility of mortgage interest payments. We find unnecessary the provision in S. 1598 which statutorily requires an individual to reduce his or her mortgage interest deduction by the amount of tax credit claimed under this program.

It is our understanding that the mortgage credit certificate program is being suggested as an equivalent alternative to the mortgage revenue bond program. A mortgage revenue bond beneficiary does not suffer any reduction in the full tax deductibility of actual mortgage interest payments. Committee report language stating that no double subsidy is intended would be more appropriate than a statutory limitation. We would suggest that retaining the mortgage interest deduction limitation provision in this bill would only serve to discourage use of, and involvement in, the mortgage credit certificate program.

PROGRAM DURATION

We would also strongly recommend, and we believe this is now implicit in S. 1598, that this program have the same sunset date to which the mortgage revenue bond program might ultimately be subject.

PROGRAM MECHANICS

If enacted, we assume that state housing agencies would, as they do now under the existing mortgage revenue bond program, play a vital role in implementing the mechanics of the mortgage credit certificate program. However, it is unclear in many respects exactly how this proposed mortgage credit certificate program would work in practice.

For example, under the mortgage revenue bond program, a bond beneficiary obtains financing from a mortgage originator who is generally aware that the individual is a bond beneficiary. The mortgage originator makes the mortgage qualification with this knowledge.

The present legislation is unclear as to whether the mortgage originator will make qualification assessments with or without knowledge of the ultimate availability of a mortgage tax credit. Factoring in the mortgage tax credit would, in many cases, determine whether or not the individual qualifies for a mortgage. Hence, we would recommend clarity of this situation, either in the Committee report or by allowing the qualifying housing agency to issue "certificates of mortgage tax credit entitlement." Such certificates could then be used by the potential homebuyer in shopping among the lending institutions for the lowest mortgage rate. We believe that certainty in program participation, however accomplished, would help to provide greater competition in the mortgage finance area and consequently enable more individuals to become homeowners.

AVAILABILITY OF MORTGAGE CAPITAL

The existing mortgage revenue bond program makes a significant contribution towards improving housing affordability and the availability of mortgage capital. The mortgage credit certificate proposal likewise would appear to ease housing affordability problems. However, we are concerned that the proposal is deficient in its ability to generate previously unavailable mortgage capital.

Although the proposal may improve competition for existing funds, the mortgage credit certificate holder must accept whatever mortgage capital is available, at the discretionary terms of the lender. Mortgage revenue bonds, on the other hand, are consistently able to provide home financing in the form of fixed rate, level payment mortgages. More importantly, mortgage revenue bonds perform this capital formation role in areas of the country which typically do not have housing money available. During times of tight money, this inability to create new mortgage capital could be a barrier to full implementation of the mortgage credit certificate program.

To partially offset this potential barrier, we would suggest that Congress clearly express an intention that mortgages carrying mortgage credit certificates remain eligible for purchase in the secondary market by FNMA, FHLMC and GNMA. It is essential, particularly during times of high interest rates, that tax credit mortgages remain eligible for secondary market purchase. Without this eligibility, the countercyclical benefits of the program would be neglected.

STATEMENT OF CUSHING DOLBEARE, PRESIDENT, NATIONAL LOW INCOME HOUSING COALITION, WASHINGTON, D.C.

Mr. DOLBEARE. I'm Cushing Dolbeare, president of the National Low Income Housing Association. We greatly appreciate the opportunity to testify this morning.

Our concern is primarily that historically housing related tax subsidies have outrun direct outlays for housing assistance by a factor of 3 to 4 to 1. Now we are in a situation where direct expenditures for low income housing assistance are being choked off almost entirely so that we are going to have to place more reliance on the tax system to try to deal with the housing problems, if the Federal Government is, indeed, going to make any effort to deal with our housing problems.

I think it's clear and our testimony documents this that the most critical housing problems that we have in this country are those of low income people.

We would like to commend you and your staff for what we believe is an extremely creative approach to dealing with a tax provision that has a worthy social purpose but which is not as efficient as it could be and recasting it to make it considerably more efficient.

I would hope that you would exercise the same kind of creativity on the major components of housing related tax expenditures. Namely, homeowner deductions, which are about 80 percent of the $40 billion that we will be spending through the tax system this year on housing.

We generally support your proposed legislation. We think it's urgent that the refundability provision be retained. We think it's urgent that there be targeting provisions. We would urge, indeed, that there be some additional incentives written into the legislation to the extent that local and state agencies choose to try to serve lower income people; they are compensated for the additional cost by receiving a larger tax credit than they would be if they serve people who were in a somewhat higher income bracket.

There are some additional changes which we also suggest as improvements in the legislation. We would be delighted to work with you and your staff as you proceed on this important matter.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Cushing Dolbeare follows:]

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TAX CREDITS FOR HOME OWNERSHIP: THE NEED FOR BETTER TARGETING

Statement of Cushing N. Dolbeare, President, National Low Income Housing Coalition, before Senate Finance Committee, September 13, 1983.

The National Low Income Housing Coalition greatly appreciates the opportunity to testify on an issue which, broadly construed, is of major concern to low income people: the use of tax subsidies to provide housing assistance to home owners. We believe that S. 1598, the specific subject of this hearing, should be considered in the context of overall housing needs, particularly those of low income people, and the resources available -- both through tax and direct expenditures -- to deal with them.

HOUSING ACCOMPLISHMENTS, HOUSING NEEDS, AND HOUSING PROGRAMS

This nation has much to be proud of when we consider our housing accomplishments. Home ownership has become regarded as the norm and the vast majority of households with a steadily employed member have, in fact, become home owners. In 1981, 88% of all households consisting of married couples with no nonrelatives were owners (compared to 65% of all households regardless of composition).

While it would be a mistake to minimize the housing problems of low income home owners, broadly speaking home ownership is a signal that people have "made it", that they have not only shelter but economic security. Renters, on the other hand, are all-too-often people who are left out, or in danger of being thrown out. Therefore, the emphasis on providing renter households with the opportunity for home ownership is important.

We believe that housing choice should be a fundamental tenet of housing policy. That applies not only to fair housing - which we strongly support - but to choice of tenure and type of housing as well. The problems of housing choice, supply, and affordability are complex and require a range of federal, state, and local actions. Federal tax provisions have long been a major source of housing subsidies. Today they are assuming increasing importance as direct federal assistance for producing and rehabilitating housing is being strangled.

Forty years ago, the major "housing problem" in this country was the lack of housing that was fit to live in. Housing quality has improved dramatically since then. The first census of housing was taken in 1940 and found 45% of all occupied dwelling units were either dilapidated or lacked basic plumbing facilities. While truly comparable data for 1980 are not available, the 1980 figure is almost certainly below 5%. Even so, there are still several million households living in housing without basic plumbing or so seriously substandard that they are dangerous to health or safety. Additional millions of households are unable to obtain shelter without spending more than half their incomes for it -- and these are our lowest income households, who then cannot afford the other necessities of life.

Through a historical accident, the federal government provides billions of dollars annually in home owner subsidies through the tax system, which cost many times as much as direct housing subsidies, for middle and upper income people. The tax exemptions for mortgage interest and property tax payments amount, in effect, to an entitlement to housing assistance, through the Internal Revenue Code, to middle and upper income home owners. They are a costly, regressive, and inefficient subsidy mechanism. The National Low Income Housing Coalition urges this Committee to devote serious study to ways in which these home owner deductions could be modified and rationalized to preserve the benefits of home ownership, to provide needed assistance to middle income home owners, and to bring a greater degree of fairness into the overall picture of federal housing assistance.

In sharp contrast to the availability of home owner deductions for middle and upper income home owners, we have failed to provide comparable assistance for low income households, whose need is incomparably greater. Indeed, almost half a century of providing assisted housing for low income people has produced fewer than four million occupied, subsidized housing units -- about three years production of unsubsidized housing units. Not only is there no entitlement to assistance, but we do not even have subsidized home ownership programs for low income people. The tax credit approach contained in S. 1598 could, with appropriate changes, be a first step in remedying this lack. However, as it stands, it does not meet this important objective.

The disparity between housing assistance provided for low income people and subsidies for higher income groups is dramatic and growing. The cost to the Treasury of home owner mortgage interest and property tax deductions alone has risen by 63% since 1980: from $23 billion in 1980 to an estimated $37.5 billion in 1984. Other housing-related tax subsidies are less costly, and better geared to the production and rehabilitation of housing units.

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    HOUSING TAX SUBSIDIES, NEW BUDGET AUTHORITY AND HOUSING PAYMENTS, 1980-84
                              (Billions of dollars)
1980
  Tax subsidies     26.5  *******************************
  Budget authority  26.7  *******************************
  Housing payments   4.5  *****
1981
  Tax subsidies     33.3  ***************************************
  Budget authority  30.2  ***********************************
  Housing payments   5.7  *******
1982
  Tax subsidies     36.6  *******************************************
  Budget authority  17.4  ********************
  Housing payments   6.9  ********
1983
  Tax subsidies     39.8  **********************************************
  Budget authority   8.7  **********
  Housing payments   7.8  *********
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It is appropriate, as present legislation governing the use of Mortgage Revenue Bonds does, to focus assistance on rental housing and on providing home ownership opportunities for first-time buyers. Chart A, showing 1981 median incomes by tenure and selected housing characteristics, throws the differences between renters and owners into sharp relief. The median incomes of owners with children are roughly twice those of renters. There are twice as many owner households with children under 18 as there are renter households.

Table 1 shows incomes of renters and owners by selected household characteristics in 1981. Only 37% of all households had any children under 18; only 9% had children under six; and only 4% had three or more children. It is worth noting that, while almost four-fifths of all married couple families were owners, 55% of female householders and 52% of male householders with no spouse present were renters. This appears to be a function of both income and race: the rate of homeownership increases sharply for households with incomes above $35,000, except for black households.

The strong preference for home ownership in our society is perhaps partly a function of the substantial federal subsidies which are provided for home owners. But it also reflects some deeper values. One indication of the kinds of housing choices people would make if income were not a factor is provided by the behavior of people who can afford to choose. Over 90% of all households with incomes above $50,000 are home owners.

Affordability is the major housing problem facing most low income renter households. Since 1974, federal housing legislation has set the threshhold for housing assistance at 80% of median income and has defined households with incomes below 50% of median as "very low income". An estimated 61% of all renter households had incomes below 80% of median in 1980, and 40% had incomes below 50% of median. The proportions were significantly higher for larger households and for minority households. Whereas 55% of all black renter households and 48% of all Hispanic renters had incomes below 50% of median, only 36% of white renter households fell in this very low income category.

This being the case, it is small wonder, as Chart B shows, that the vast majority of very low income renters pay more than half their incomes for shelter. The contrast with higher income households is striking. (In addition to the almost six million renter households paying over half their incomes for shelter, there are another 2.5 million owners who do so. As with renters, their incomes are predominantly below $10,000.)

There are, quite simply, a lot more poor renter households than there are low rent units in the housing inventory. Chart C shows the number of renter households in 1980 and the number of affordable units in the housing inventory, using either the 25% of income affordability standard. The bottom line is that there are four million more renter households with incomes below $7,000 than there are units renting for $146 per month or less, including utilities, which is what a household with a $7,000 income can afford. There are almost twice as many households with incomes below $3,000 are there are units renting for less than $63. In 1980, the family with an income of $3,000 at the median rent of $179 paid by the 2.7 million households with incomes below $3,000 would spend 72% of its income for shelter and have only $71 for all other needs.

Moreover, only 19% of the renter households in this lowest income bracket lived in subsidized housing in 1980. More than half, 51%, were households of two or more people; 5% were households of five or more; 49% were single person households. More than one quarter, 27%, were female-headed households; 13% were married couples with no other nonrelatives in the household; 6% were male-headed households. There were children under 18 in 27% of the households, with 6% having three or more children. Only 4% paid less than 25% of income for rent; 59% paid 60% or more. Ten percent lived in units lacking some or all plumbing facilities; 4% were overcrowded. Twenty-nine percent were black; 8% were of Hispanic origin. All had incomes below 75% of the poverty level. Forty-six percent lived in central cities; 31% lived outside of metropolitan areas.

These households are the poorest of the poor, but in 1980 they were less than one third of all households with incomes below the poverty level. There were also another 3.3 million renter households with incomes above $3,000, but below the poverty level, and another 4.9 million owner-occupants below the poverty level. It is worth stressing that the economic situation and federal policies and programs which made it possible for so many families to become home owners in the period after World War II have substantially lessened the amount of housing assistance needed now to provide adequate shelter for all poor families.

The dimensions of our low income housing problem are easy to forget. When we speak of low income housing needs, we are, by the most conservative estimates, talking about millions of people: 29 million in all, including more than 11 million children (4 million of them under six) and 4 million elderly people.

President Reagan's Commission on Housing, in its report last year, used a less conservative estimate of housing need: households with incomes below 50% of median. There are 20 million such households, half of them renters. (Chart D shows the number of renter households, by household size, with incomes below 50% and 80% of median.) Only one quarter of these renter households are now in subsidized housing. In other words, for each family now in low income housing -- after close to half a century of providing housing assistance -- there are three others who need it, who probably want it, and who can't get it.

The achievements of our housing assistance efforts over the last half century sharply contrast with this picture of housing need. At the end of fiscal 1984, if all goes as planned, HUD will be providing housing assistance to not quite four million households and the Farmers Home Administration will be assisting another million.

A rough picture of the characteristics of households living in much assisted housing is provided by a recent Census Bureau report. The report covers only rental housing, omitting the owner-occupied units assisted under HUD's Section 235 and FmHA's 502 programs. Thus, the total picked up by this survey is well below the actual number of units subsidized. It includes occupied units assisted through public housing, Section 8 and other rental subsidy programs. About 11% of all renter households received federal housing assistance in 1981. But, significantly, almost one third of all female-headed households with incomes below the poverty level lived in assisted housing, as did almost 37% of elderly households. Some 43% of assisted housing tenants also received food stamps, and four fifths of these households were below the poverty level. Three fifths of all low income housing residents were white. Three fifths were family households, but more than half of these were headed by women with no husband present. There were children in just under half of all households. Half of all assisted housing was in central cities; another quarter was outside metropolitan areas.
Not only are low income housing needs critical, but events of the past several years should fill us with a sense of foreboding. Programs to provide direct housing assistance for lower income people (in contrast to tax subsidies) have been cut drastically. Worse, the impact of these cuts has yet to be felt and, when it is, it will take years to reverse the damage.

Broadly stated (and grossly oversimplified), not only did the 1970's see the largest increment in assisted housing since the federal government began providing it in the 1930's, but, because of the time it takes between Congressional action to provide housing and getting it built and occupied, the largest number of program reservations (the first step in the process) came during the Ford administration; the largest number of construction starts during the Carter administration; the largest number of additional subsidized units actually occupied will apparently come under the Reagan administration; and we will begin seeing the effects of the devastating cuts of the past three years during the next administration. In other words, the increase in homelessness and other dramatic indicators of the low income housing crisis is not, so far, because of cuts in housing programs. Rather it is the impact of the recession and cutbacks in other programs. We are still to reap the consequences of the housing cuts.

This fact gives added urgency to the actions of this Committee. The National Low Income Housing Coalition does not believe that tax subsidies which serve low and moderate income people should be cut at this time. We do endorse improving their efficiency and, even more important, targeting them as far as possible where the need is greatest. For this reason, we support the initiative to provide a tax credit option as a substitute for mortgage revenue bonds, provided it is adequately targeted for low income people.

RECOMMENDED CHANGES IN S. 1598

Except for public housing, the only assistance which the Federal government is now providing for housing production is through tax subsidies. It is critical therefore, given our major housing needs, that these subsidies not be terminated unless and until direct subsidy programs to replace them are enacted, funded, and operating and, equally important, that they be targeted to the extent feasible.

S. 1598 as presently drafted would permit state and local agencies qualified to issue mortgage revenue bonds to trade in part or all of their authorizations for a tax credit set at 14.35% of the unused bond authority. The credit could be offset against 10%-50% of the mortgage interest paid by the home buyer and would be "refundable". Use of the credits would be subject to the same restrictions as govern mortgage revenue bonds.

We assume that the primary target population for a homeownership subsidy program are married renter households aged between 25 and 35. There are four million such households, most of them in the income range now served by MRB's, as the following chart (next page) shows.

Two significant points should be stressed. First, 60% of young renter households have incomes below $25,000 but only half of the MRB users fall into this income range. Second, the proportion of upper income (over $35,000 households) using MRB's is almost twice the proportion of upper income young renter households.

INCOME OF YOUNG RENTERS AND MORTGAGE REVENUE BOND USERS

Income	Number	%	
$0-15,000			
Young renters *	1,001,000	24.5	*************************
MRB users	1,974	9.6	**********
$15-25,000			
Young renters *	1,470,000	36.0	************************************
MRB users	8,160	39.9	**
$25-35,000			
Young renters *	709,000	17.4	*****************
MRB users	7,252	35.4	************************************
Over $35,000			
Young renters *	318,000	7.8	********
MRB users	3,085	15.1	***************
Total			
Young renters *	4,081,000	100.0	
MRB users	20,471	100.0	

* Married couples aged between 25-34.
Source: 1981 AHS, Part C, Table 1 and GAO Rept on MRB's

We do not believe that S. 1598 will achieve the objective of serving renters at the lower end of the income scale without either additional restrictions on the use of MRB's or significant incentives to state and local agencies to increase targeting, or both. For instance, the credit could be skewed so that instead of a flat percentage of unused bond authority, it varied with the income of the purchaser. For example, the credit might be 10% of unused bond authority for households with incomes from 80-115% of median, 15% for households with incomes between 50% and 80% of median, and up to 25% for households with incomes below 50% of median. This would not only serve the social purpose of providing assistance where it is most needed, it would also help offset the additional cost of providing the deeper subsidies needed by very low income households.

The limit on the amount of subsidy per household - set at 50% of mortgage interest - should also be removed, at least for very low income households.

Credits should be available for very low income people to purchase units in cooperatives as well as for single family housing.

Finally, we call attention to the need for adequate planning for the program and for appropriate citizen participation in determining the use of the assistance provided.

With these changes included, S. 1598 represents an important initiative: one which we believe should be enacted as part of the extension of the MRB program.

TABLE 1

HOUSEHOLDS WITH CHILDREN, BY INCOME AND TENURE, U.S., 1981
(Households in thousands)

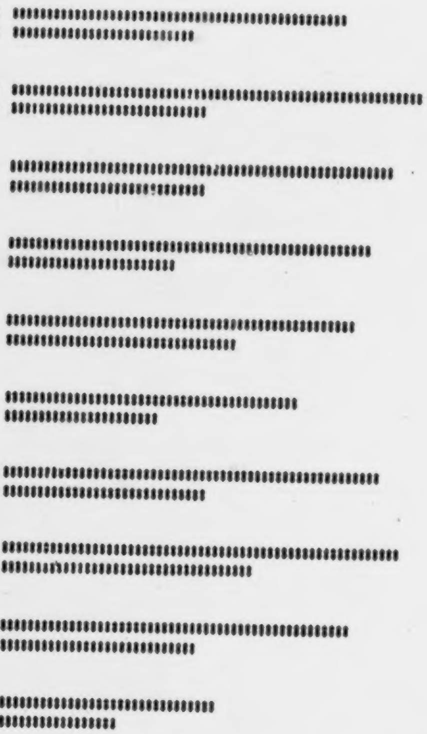
United States Total	Total	Less than $3,000	$3,000 to $6,999	$7,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 to $34,999	$35,000 to $49,999	$50,000 to $74,999	$75,000 or more	Median (Dollars)
All owners	54,342	1,867	5,375	4,069	6,838	6,650	6,592	10,238	7,672	3,610	1,431	21,800
All renters	28,833	2,284	6,532	3,685	5,711	3,911	2,775	2,499	1,015	297	124	11,700
Total	83,175	4,151	11,907	7,754	12,549	10,561	9,367	12,737	8,687	3,907	1,555	—
Percent Owners	65.3	45.0	45.1	52.5	54.5	63.0	70.4	80.4	88.3	92.4	92.0	—
Percent Renters	34.7	55.0	54.9	47.5	45.5	37.0	29.6	19.6	11.7	7.6	8.0	—
Own Children under 18												
Owners	21,643	538	724	793	2,035	2,719	3,277	5,391	3,891	1,636	640	26,400
Renters	9,634	733	1,793	1,204	2,014	1,420	1,019	961	335	106	28	12,700
Total	31,277	1,271	2,517	1,997	4,049	4,139	4,296	6,352	4,246	1,742	668	—
Percent renters	30.8	57.7	71.2	60.3	49.7	34.3	23.7	15.1	8.4	6.1	4.2	—
Own Children under 6												
Owners	4,276	76	117	138	386	696	736	1,162	643	233	89	24,900
Renters	3,442	280	620	432	747	535	392	330	83	17	6	12,600
Total	7,718	356	737	570	1,133	1,231	1,128	1,492	726	250	95	—
Percent renters	44.6	78.7	84.1	75.8	65.9	43.5	34.8	22.1	11.4	6.8	6.3	—
Three or more children												
Owners	2,265	72	76	102	274	331	400	543	281	135	52	23,500
Renters	1,113	111	268	147	258	130	91	71	25	10	2	10,600
Total	3,378	183	344	249	532	461	491	614	306	145	54	—
Percent renters	32.9	60.7	77.9	59.0	48.5	28.2	18.5	11.6	8.2	6.9	3.7	—
AS PERCENT OF ALL OWNERS/ALL RENTERS/ALL HOUSEHOLDS:												
Own Children under 18												
Owners	39.8	28.8	13.5	19.5	29.8	40.9	49.7	52.7	50.7	45.3	44.7	121.1
Renters	33.4	32.1	27.4	32.7	35.3	36.3	36.7	38.5	33.0	35.7	22.6	108.5
Total	37.6	30.6	21.1	25.8	32.3	39.2	45.9	49.9	48.9	44.6	43.0	—
Own children under 6												
Owners	7.9	4.1	2.2	3.4	5.6	10.5	11.2	11.3	8.4	6.5	6.2	114.2
Renters	11.9	12.3	9.5	11.7	13.1	13.7	14.1	13.2	8.2	5.7	4.8	107.7
Total	9.3	8.6	6.2	7,4	9.0	11.7	12.0	11.7	8.4	6.4	6.1	—
Three or more children												
Owners	4.2	3.9	1.4	2.5	4.0	5.0	6.1	5.3	3.7	3.7	3.6	107.8
Renters	3.9	4.9	4.1	4.0	4.5	3.3	3.3	2.8	2.5	3.4	1.6	90.6
Total	4.1	4.4	2.9	3.2	4.2	4.4	5.2	4.8	3.5	3.7	3.5	—

Source: Calculated by Low Income Housing Information Service from data in 1981 Annual Housing Survey, Financial Characteristics of the Inventory, Table 1.

1981 MEDIAN INCOMES BY TENURE AND SELECTED HOUSEHOLD CHARACTERISTICS.

CHART A

United States Total	Total Households	Median Income
All owners	54,342,000	$21,800
All renters	28,833,000	$11,700
Own Children under 18		
Owners	21,643,000	$26,400
Renters	9,634,000	$12,700
Own Children under 6		
Owners	4,276,000	$24,900
Renters	3,442,000	$12,600
Three or more children		
Owners	2,265,000	$23,500
Renters	1,113,000	$10,600
Units with subfamilies		
Owners	948,000	$22,600
Renters	373,000	$14,700
Units with nonrelatives		
Owners	1,583,000	$19,000
Renters	2,840,000	$9,900
Total two or more person households		
Owners	43,827,000	$24,200
Renters	18,685,000	$13,100
Married couple families, no nonrelatives		
Owners	39,137,000	$25,600
Renters	10,822,000	$16,200
Other male householder		
Owners	2,257,000	$22,300
Renters	2,418,000	$12,400
Other female householder		
Owners	4,433,000	$13,900
Renters	5,444,000	$7,800



Source: Calculated by Low Income Housing Information Service from data in 1981 Annual Housing Survey, Financial C
the Inventory, table 1.

CHART B.

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RENT-INCOME RATIOS, BY INCOME, U.S., 1980.


Income under $3000
  Under 25%               135000  *
  25-34%                  210000  **
  35-49%                  231000  **
  Over 50%               2172000  **********************

Income $3000-6999
  Under 25%              1086000  ***********
  25-34%                  956000  **********
  35-49%                 1541000  ****************
  Over 50%               2895000  ******************************

Income $7000-9999
  Under 25%              1008000  **********
  25-34%                 1248000  *************
  35-49%                 1146000  ************
  Over 50%                457000  *****

Income $10000-14999
  Under 25%              2742000  ****************************
  25-34%                 1894000  *******************
  35-49%                  738000  ********
  Over 50%                180000  **

Income $15000-19999
  Under 25%              2829000  *****************************
  25-34%                  691000  *******
  35-49%                  131000  *
  Over 50%                 20000

Income $20000 or more
  Under 25%              4889000  *************************************************
  25-34%                  316000  ***
  35-49%                   30000
  Over 50%                  6000
```

Source: Compiled by Low Income Housing Information Service from 1980 Annual Housing Survey Data.

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Chart C.

1980 Renter Households and Units in Affordable Rent Range

Note: This chart compares the number of renter households, by income, in 1980 with the number of rental units in the housing stock (regardless of location, quality or availability) in a rent range that represents 25% of income.

Income/Rent Range	Households or Units	
Income under $3000	2,748,000	**************
Units under $63	1,252,000	******
Income $3000-4999	3,599,000	******************
Units: rent $63-104	1,451,000	*******
Income $5000-6999	2,882,000	**************
Units: rent $105-146	2,351,000	************
Income $7000-9999	3,862,000	*******************
Units: rent 147-208	5,526,000	***************************
Income $10000-14999	5,553,000	****************************
Units: rent 209-313	10,067,000	**
Income $15000-20000	3,672,000	******************
Units: rent 314-417	4,464,000	**********************

Source: Low Income Housing Information Service (based on 1980 Annual Housing Survey Data)

Chart D.

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RENTER HOUSEHOLDS ELIGIBLE FOR HOUSING ASSISTANCE, 1980

ALL RENTER HOUSEHOLDS
                              Number   Percent
Single person
  Total                    9,784,000     100.0  *************************************************************
  Below 80%                5,947,000      60.8  ************************************
  Below 50%                3,900,000      39.9  ************************

Two persons
  Total                    8,005,000     100.0  **************************************************
  Below 80%                4,499,000      56.2  ****************************
  Below 50%                3,164,000      39.5  *******************

Three persons
  Total                    4,307,000     100.0  **************************
  Below 80%                2,745,000      63.7  *****************
  Below 50%                1,705,000      39.6  **********

Four persons
  Total                    2,952,000     100.0  ******************
  Below 80%                1,887,000      63.9  ************
  Below 50%                1,160,000      39.3  *******

Five persons
  Total                    1,358,000     100.0  ********
  Below 80%                  961,000      70.8  ******
  Below 50%                  622,000      45.8  ****

Six persons
  Total                    1,149,000     100.0  *******
  Below 80%                  793,000      69.0  *****
  Below 50%                  604,000      52.6  ****

ALL RENTER HOUSEHOLDS
  Total                   27,555,000     100.0  ************   **********************************************
  Below 80%               16,832,000      61.1  ************   **********************
  Below 50%               11,155,000      40.5  ************   *********

Source:  Low Income Housing Information Service (based on 1980 Annual Housing Survey data)
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The CHAIRMAN. I think we do have an obligation. I don't question that. I think we just have to find the most efficient way to do it. We are dealing with taxpayers' funds, and I won't repeat the problems we are having.

It shouldn't be tough at all. If we have got an inefficient program that can be modified and workable, and give more assistance to first time homebuyers, more business to homebuilders and realtors, I should think it would enjoy rather broad support.

I would like to ask just one question or two questions on the—it may have been covered in your statement, Mr. Wynn, but just in case. It's my understanding that based on staff's—that the typical underwriting approach is to use an applicant's monthly gross income and compare it with the required monthly mortgage payments. Now tax credits do not affect gross income. I guess my question is how are you going to be able to determine how can mortgage lenders take the annual tax credit into account in deciding whether to make the loan?

Mr. WYNN. Senator, I would assume that the mortgage lender would add the credit to the gross income, and use it as additional gross income in determining the ability to make a monthly payment.

However, I think it's extremely important to point out that there needs to be a way to allow the actual cash credit to flow through to the mortgagor or the first time homebuyer on a monthly basis through some formula of adjustment to withholding taxes or something of that nature because the payments have to be made on a monthly basis; not on an annual basis. And we feel strongly that there must be the ability to make those payments.

The CHAIRMAN. I am advised that current law would permit that so there wouldn't be any problem.

I guess my second question—and I think this is important to your industry. In fact, I think were suggested that at least we should make a record—is if a State housing agency adopted a mortgage credit certificate plan, when the certificate was issued to an individual who could then go shopping for a loan, how long a period should we allow this certificate to be valid before the loan is actually made? Do you have any suggestions in that area?

Mr. WYNN. Senator, we would suggest a minimum of 6 months, and a maximum of a year. As you know, two of the most important criteria of qualifying as a first time buyer from a credit side is the amount of income as well as the number of individuals in the family. If you support what your income is by your 2 year prior tax return, and obviously between 6 months and a year the number of dependents in a family could change, then there seems to me that there would be the need for some recertification within a 6 month to a year period to determine the continuing eligibility to use the credit.

The CHAIRMAN. Mr. Smith, I think you have read the GAO report or at least heard the witnesses and heard one of the questions. Their final report indicates that 75 percent of bond loans went to families above median income in 1982. I know you have given me some statistics, but they may or may not be helpful.

If mortgage bond loans or mortgage credits were primarily targeted primarily to lower income families instead of higher income families, would there be a greater likelihood of actually helping those who truly could not otherwise afford housing?

Mr. SMITH. First of all, Senator, our statistics, which are from the first one-fifth of those loans that were closed in Ohio, do not substantiate most of what GAO may claim. But there is, of course, that differentiation. There is no doubt that programs designed to help that lower income, median income, person are very helpful. I give you, however, sir, a suggestion that perhaps part of the problem might be with the present situation.

For example, when we issued the first 300 million dollars' worth of mortgage revenue bonds in Ohio, we attempted through every device possible to get the Internal Revenue Service and HUD to expand and allow us to use the 1980 census track and other targeted areas for providing these moneys into targeted areas. They did not act upon those requests, and so we were taken to use the 1970 census track, thus taking large amounts of money that should have been earmarked for that purpose and making them unusable. Because in that 13 year period of time, many of those tracks have no housing left in whatsoever. So there is no doubt that in the operation of the mortgage revenue bond program there are inefficiencies. And, certainly, those have to be addressed. That's why we also support as an alternative to that so that within each State they can deal with these on a State-by-State basis.

The CHAIRMAN. Thank you. And we will make that statement part of the record. And we will look at some of the—I think you said the average income was, what, $28,000?

Mr. SMITH. $28,371. Yes, sir.

The CHAIRMAN. What's the highest income?

Mr. SMITH. If you will give me——

The CHAIRMAN. That will all be reflected in your report.

Mr. SMITH. Right. About 85 percent of the loans were made to people making less than $35,000 a year. I do remember that number off the top of my head.

The CHAIRMAN. In the low income area, what do you consider to be a definition of low and moderate income households who should be helped by either our program or the mortgage program? Do you have a rule of thumb?

Mr. DOLBEARE. There are a variety of definitions. All of them have problems with them. The one that I think is most uniformly accepted is the definition of people with incomes below 50 percent of their family median. That's approximately 20 million households in this country. Ten million of them are renters. Only one-quarter of those renter households are now living in subsidized housing. These are figures from the report of President Reagan's Commission on Housing.

So that a minimum very low income housing need would be at least 7 million households. Certainly, a mortgage revenue bond program would, I would think, want to go a little higher than that very low income because the subsidy that is involved isn't sufficient to get down there without being combined with other subsidies.

The next bracket that is usually used is income between 50 and 80 percent of family median. That, again, is a relatively tight definition. You can find in almost any community people with incomes above that level that are having housing difficulties. You also find, though, that the vast majority of people in that income range are able to find housing that meets minimum standards of quality at costs they can afford, but their choice is rather severely restricted so that to summarize certainly incomes below 80 percent of the median, we would stress incomes below 50 percent of the median. I think if we want to get into some assistance for new housing production, would be necessary also to include another range of middle income really, say, 80 to 115, 120 percent of median.

The CHAIRMAN. Well, how has the mortgage bond program faired in serving that constituency you just referred to?

Mr. DOLBEARE. Well, on page 6 of my testimony there is a little chart which compares just the distribution of young married renter households. That is, married couples aged between 25 and 34. That shows that about one-quarter of them have incomes of less than $15,000. That's a little—maybe 75 percent of median or below. About 10 percent of mortgage revenue bond users, if the GAO figures are correct, fall in that income category. In part, that's because you need, I think, for a large number of those households some additional subsidy. That's one of the reasons we like your tax credit approach. Because it does make it more flexible than simply the 2- or 3-percent interest differential you get with mortgage revenue bonds.

If the program is really going to be able to serve people with very low incomes, it would need to have the restriction that is in there now of limiting it to 50 percent of the interest removed so that it could be up to 100 percent, or if it were refundable for a very low income family, possibly even some additional payment.

But it seems to me that within the concept those refinements could be worked out and would be consistent with it.

The CHAIRMAN. Is there anything else any of the witnesses wish to add? I don't want to cut anyone off. But we have your statements, and we will be—and I know there is some interest in resolving this matter at the earliest possible time so it's my hope we can work out some agreement with members of the committee. We have Senator Long, Senator Bradley, myself and other Members—Senator Heinz, along with Senator Tower who does a lot in the housing area. A number of other Senators who are looking at the legislation.

It just seems to me that we have an opportunity not because my name is on it, but an opportunity to focus on a problem that affects not only home buyers but also our problem with deficit spending.

We appreciate very much your coming. Thank you very much. If we have other questions, I assume you would be able to submit the answers in writing.

Our final panel is Mr. David Smith, vice president and secretary, National Association of Home Builders; Wayne Millsap, chairman, Missouri Housing Development Commission; Wallace Ford, executive director, State of New York Mortgage Agency; Michael Lang, general manager, Park West Construction Co.; Blake Chambliss, chairman-elect, Housing Committee, American Institute of Architects.

Let's see, I assume you will proceed in the way your names were called unless you have another. And, again, I would hope that we might summarize the statements. They will be made a part of the record in full. And I have had an opportunity to review nearly all the statements.

Mr. Smith.

STATEMENT OF DAVID C. SMITH, VICE PRESIDENT AND SECRETARY, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, D.C.

Mr. SMITH. Mr. Chairman, and members of the committee, my name is David Smith. I'm vice president-secretary of the National Association of Home Builders. The NAHB considers the mortgage credit certificate proposal to be a very promising new approach for assisting first-time home buyers and others in need of housing assistance.

The mortgage credit certificate program has the potential of being a flexible and efficient complement to the mortgage revenue bonds. Beyond its value as a homeownership assistance mechanism, this tax credit program could be a significant factor in promoting pension fund investment in residential real estate. By prompting housing finance authorities to issue taxable bonds that carry the mortgage credit certificate, this new program could create a housing investment vehicle that will overcome the most significant barriers to the pension funds in housing.

In sum, we believe that you, Mr. Chairman, and your colleagues have developed a program that with modifications could assist a substantial number of potential home buyers. However, we believe that the changes we propose are essential to the success of a new program. Our key recommendations are as follows:

Reauthorization of mortgage revenue bonds is essential. Mortgage interest deduction must not be jeopardized. The tax credit level must be raised to match the benefits of mortgage bonds. The transition rules require the average State to sacrifice $220 million in mortgage bond authority. There must be a role for new construction. Fannie Mae, Ginnie Mae and the Federal Home Loan Mortgage Corporation participation is essential to insure the success of the mortgage credit certificate program. And, finally, the administration of the program by State and local housing finance agencies is strongly recommended.

These are our principal recommendations for the mortgage credit certificate program. We would be pleased to continue to work with the members and the staff of the Senate Finance Committee on development of this important legislation. Our detailed analysis of the First Time Homebuyers Assistance Act of 1983 is being submitted for the record.

I thank you for the opportunity to testify.

The CHAIRMAN. You made some reference to pensions.

Mr. SMITH. Well, Senator, historically, pension funds have not invested in housing. Less than 1 percent of the assets of the ERISA regulated funds are in residential real estate. To date, the pension funds have been reluctant to invest in housing because there has not been a housing investment vehicle that provides adequate call protection. Through the active management of bond cash flows, corporate bond issuers are able to insure that bond calls are minimized. State and local housing finance authorities have the same capability for active management under their tax exempt bond programs. But pension funds, which are already tax exempt, have no use for tax exempt bonds. Housing finance authorities have the experience to issue taxable cash flow bonds, and they can meet their programmatic objectives by combining taxable bond capital with mortgage credit certificates. Simultaneously, they will be creating an investment opportunity that is ideal for the pension funds.

In this way, the mortgage credit program could provide State and local housing finance authorities with an incentive to issue taxable bonds, and also open up pension funds for the housing investment.

The CHAIRMAN. So what you are suggesting is it may be an opportunity here?

Mr. SMITH. That's correct.

The CHAIRMAN. We've been working with homebuilders for years trying to figure out some way to loosen up some of the pension funds.

Mr. SMITH. There is a substantial amount of money accumulating in pension funds, and we would certainly like to get them investing in housing.

The CHAIRMAN. Thank you.

[The prepared statement of David Smith follows:]

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)
before the
COMMITTEE ON FINANCE
UNITED STATES SENATE
on
"THE FIRST TIME HOMEBUYER ASSISTANCE ACT OF 1983"
SEPTEMBER 13, 1983

Mr. Chairman and Members of the Committee:

My name is Dave Smith and I am Vice President and Secretary of the National Association of Home Builders (NAHB). I am presenting this statement on behalf of the more than 112,000 members of NAHB. NAHB is a trade association of the nation's homebuilding industry.

Mr. Chairman, NAHB considers the Mortgage Credit Certificate proposal to be a very promising new approach for assisting first time homebuyers and others in need of housing assistance. We congratulate you for your efforts.

The Mortgage Credit Certificate program has the potential of being a flexible and efficient complement to mortgage revenue bonds. Beyond its value as a homeownership assistance mechanism, this tax credit program could be a significant factor in promoting pension fund investment in residential real estate. By prompting housing finance authorities to issue taxable bonds that carry the mortgage credit certificate, this new program could create a housing investment vehicle that will overcome the most significant barriers to pension investment in housing.

In sum, we believe that you, Mr. Chairman, and your colleagues have developed a program that, with modifications, could assist a substantial number of potential homebuyers. However, we believe that the changes we propose are essential to the success of this new program. Our key recommendations are as follows:

- Reauthorization of Mortgage Revenue Bonds Is Essential - NAHB will support the Mortgage Credit Certificate proposal only if the sponsors of this tax credit legislation commit to move ahead rapidly with the legislation to repeal the sunset date on mortgage revenue bonds. Over three-fourths of the House and Senate have co-sponsored the mortgage bond reauthorization legislation. We believe strongly that the mortgage credit certificate proposal must not divert Congress from its essential work in obtaining elimination of the sunset date for mortgage bonds.
- Mortgage Interest Deduction Must Not Be Jeopardized - Homebuyers who benefit from the mortgage credit certificate program are, in effect, being denied a portion of their mortgage interest deduction. We can understand the rationale for this action in the case of this program. However, I do not need to remind you that NAHB opposes any action to limit the tax deductibility of mortgage interest payments.
- The Tax-Credit Level Must be Raised to Match the Benefits of Mortgage Bonds - Although the Mortgage Credit Certificate is an attractive homeownership assistance vehicle, the credit level of 14.35% does not come close to matching the benefits of mortgage bonds. A 1979 Urban Insitute study sponsored by

HUD determined that mortgage revenue bonds deliver a 20% interest rate reduction when compared with conventional mortgage rates. NAHB duplicated the Urban Institute methodology using 1982 and 1983 data and found the interest rate reduction to be 21.6%. A tax credit level of at least 21% more accurately reflects the mortgage bond program benefits that the tax credit legislation should provide.

o The Transition Rules Require the Average State to Sacrifice $220 Million In Mortgage Bond Authority - The inclusion of severe transition rules is without programmatic justification and brings into question the meaning of the original mortgage bond volume safe harbors included in the Mortgage Subsidy Bond Tax Act. The transition rules should be amended so that states and localities are not punished for attempting to implement this new program. Moreover, we are concerned that the decision to participate in the program by one small locality could reduce mortgage bond authority for every other jurisdiction in the State.

o There Must be a Role for New Construction - In these times of high energy and maintenance costs, a new home often makes more sense for moderate income first time homebuyers. Frequently, the existing homes available for sale are too big and too expensive to operate for a moderate income household. As with the mortgage bond program, builders must have the option to obtain mortgage credit certificates direct from the issuing authority to use with their qualifying residences. Without this link between certificates and new units, the new construction impact of this program may be minimal.

- FNMA/GNMA/FHLMC Participation Is Essential To Ensure the Success of the Mortgage Credit Certificate Program - To ensure adequate capital availability for this program, it is essential that mortgages carrying the tax credit be eligible for purchase by the federally chartered secondary market agencies, the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). As a significant aid to implementation, these agencies should be encouraged to develop underwriting quidelines that account for the tax credit.
- State and Local Housing Finance Agency Administration of the Program Is Strongly Recommended - State and local Housing Finance Agencies have a proven track record in administering targeted homeownership programs. To ensure continuity and coordination with existing programs, it is important that the legislation designate state and local housing finance agencies presently administering mortgage revenue bond programs as the administering agents for this program.

These are our principal recommendations for the Mortgage Credit Certificate program. We would be pleased to continue to work with the members and staff of the Senate Finance Committee on the development of this important legislation. Our detailed analysis of the First Time Home Buyer Assistance Act of 1983 is being submitted for the record.

Thank you for the opportunity to testify. I would be pleased to answer any questions you may have.

"FIRST TIME HOMEBUYER ASSISTANCE ACT OF 1983"

SUMMARY

The following is a summary of the proposed mortgage credit certificate program which addresses a number of key questions about the program.

Tax Credit Level

According to a statement accompanying the Senate bill, S.1598, the 14.35% credit "will provide state and local housing authorities with the option of providing substantially more financial assistance to homebuyers and the homebuilding industry than is currently provided through the issuance of tax exempt mortgage subsidy bonds." This statement, however well intentioned, is inaccurate as the tax credit is presently structured; a dollar of mortgage credit certificate authority provides 24% to 34% less assistance to homebuyers and the homebuilding industry than a dollar of mortgage bond authority. The bill assumes:

- Mortgage revenue bonds provide an interest reduction of 15% when compared with conventional mortgage rates.
- 87% of the proceeds of mortgage bond issues actually go to finance mortgages.

To calculate the credit level, the bill multiplies the assumed interest reduction spread by the ratio of lendable proceeds and -- allegedly to provide more subsidy than mortgage bonds -- increases the result by 10%.

$$(.15 \times .87) \times 1.1 = .1435$$

The weighted average annual percentage rate for all state Housing Finance Agency homeownership loan programs (not counting buydowns and other external subsidies) was 12.31% for the period January 1, 1982 to June 30, 1983. When the rates on mortgage bond programs are compared on a monthly basis with rates on similar term and loan to value ratio conventional loan rates (obtained from the Federal Home Loan Bank Board), the weighted average spread between mortgage bonds and the conventional market is 21.61%. Applying this empirical measure of the benefit provided by mortgage bonds to the equation -- rather than 15% -- we see a corresponding change in the tax credit level:

$$(.22 \times .87) \times 1.1 = .2105$$

The Federal Home Loan Bank Board data and the data on mortgage revenue bond program yields strongly suggest that the 14.35% tax credit provides substantially less assistance to homebuyers than mortgage revenue bonds on a dollar for dollar basis.

Mortgage Capital Availability

Mortgage Capital availability should not be a barrier to implementation of the program as long as the federally-chartered secondary market agencies will purchase mortgages carrying the certificates. The certificates may promote the issuance of taxable bonds by Housing Finance Agencies, thereby creating an excellent incentive for pension fund investment in residential real estate.

Transition Rules

The transition rules for the program would require most participating states and localities to sacrifice significantly more mortgage revenue bond authority than they receive in credit certificate authority. For example, if states issue the same volume of mortgage bonds in 1983 as they did in 1982, the average state would stand to lose $220 million more in mortgage bond authority than it receives in credit certificate authority if it participates in the new program during every transition year.

Program Administration

Administration of the mortgage credit certificate program raises a number of concerns relating to enforceability of the program requirements; builder participation; underwriting; and administrative costs. A number of modifications to the program are called for but none should prove to be an insurmountable barrier to implementation of the program.

OVERVIEW OF LEGISLATION

On July 12, Senate Finance Committee Chairman Robert Dole and Senators Long, Domenici, Bradley, Wallop, Tower and Heinz introduced S.1598, the "First Time Homebuyer Assistance Act of 1983." A companion bill, H.R.3594, was introduced in the House on July 19, by Rep. Conable and others. This bill would allow state and local governments to elect, for any year, to exchange all or part of their mortgage bond authority for authority to issue Mortgage Credit Certificates.

Mortgage Credit Certificates (MCCs) would entitle homebuyers to refundable tax credits from 10% to 50% of the mortgage interest paid for mortgages on qualifying residences. Homebuyers would not be allowed to deduct from their taxable income the portion of their interest payments offset by the MCC tax credit. The proposed program would carry the same first time homebuyer, purchase price and targeting restrictions as mortgage revenue bonds.

State and local governments could elect, on a yearly basis, to trade-in part or all of their single family bond authority for mortgage credit certificate (MCC) authority. The swap would be based on the total volume of bonds issued by the state or locality in 1983, and not the full mortgage bond authority. In 1984, for example, a state with a $200 million mortgage bond volume cap that only issued $100 million in 1983 would be eligible to trade-in $125 million worth of mortgage revenue bond authority for mortgage credit certificates. By using mortgage bonds only, that state could issue $200 million in bonds in 1984. Over a six-year period, the allowable volume for states and localities using both programs would be raised until the cap equals the full mortgage bond authority.

The 14.35% credit level is based on the assumptions that the average mortgage revenue bond issue provides a mortgage loan fund equal to 87% of the bond proceeds and mortgage bond mortgages have yields 15% lower than conventional yields. Hence, the credit level of 14.35% is assumed to be 10% higher than the benefit provided from mortgage bonds (.87 x .15 = .1305; .1305 x 1.10 = .14355).

The following example compares the subsidy provided by mortgage credit certificates with mortgage revenue bonds. If the state or local government trades-in $100 million in mortgage revenue bonds for mortgage credit certificates and conventional mortgage rates are 13%, the $100 million in authority would translate to $1,866,150 in tax credits annually. These credits could be used to effectively lower the interest rate to 11.13% on $100 million in mortgages. Given the traditional mortgage interest reduction provided by mortgage bonds, in the same market, the comparable rates for a mortgage bond program adjusted for costs of bond issuance would be 10.41%.

Like mortgage bonds, the tax credit would remain in effect until the mortgages are prepaid. The tax credits are assumable only if the individuals assuming the financing meet the program eligibility requirements.

DOES THE MORTGAGE COST REDUCTION PROVIDED IN THE BILL MATCH THE MORTGAGE INTEREST RATE REDUCTION PROVIDED BY MORTGAGE BONDS?

No. Although materials accompanying the bill state that the program provides a subsidy that is 10% greater than mortgage bonds, the tax credit actually understates the benefits of mortgage bonds by 24% to 34%. The benefits of mortgage bonds are understated because the true spread between mortgage bond program mortgage rates and similar conventional mortgage rates is misstated as 15% rather than 21.6%. A tax credit level of 21% would more accurately represent the interest rate break obtained from mortgage revenue bonds.

The Spread Between Mortgage Bond Program and Conventional Mortgage Rates

The legislation assumes that the reduction in interest rates provided by mortgage bonds is between 10% and 15%, which was determined using Federal Home Loan Bank Board and General Accounting Office (GAO) data.

However, the GAO approach for measuring the rate spread obtained from mortgage bonds, as set forth in "The Costs and Benefits of Single Family Mortgage Revenue Bonds: Preliminary Report"; April 1983, has been widely and justifiably criticized. To determine the mortgage bond program yields, GAO uses the *Daily Bond Buyer* revenue bond index and adds 125 basis points. This action ignores the fact that single family bonds have consistently lower yields than the *Bond Buyer* index.

To calculate the conventional market rate, GAO uses GNMA yields. The GNMA yields are then increased to account for servicing fees. Because GNMA's are only issued on FHA mortgages and are backed by the full faith and credit of the U.S. Government, the GAO analysis compares yields on municipal securities with yields on federal securities. The GAO's approach for calculating both mortgage bond program yields and conventional market yields suffers from a failure to take advantage of readily available empirical data on effective yields for mortgage bond programs and conventional mortgages. The GAO use of proxies for conventional and mortgage bond program rates simply is not justified.

Our general approach is to compare each mortgage bond program with similar fixed rate conventional loan statistics. Buydowns, adjustable rate loans, shared appreciation mortgages and other "bells and whistles" are not included. Mandatory points paid by the borrower, seller and lender (in the case of some Housing Finance Agency programs) are all taken into account in computing the effective mortgage interest rate for both the mortgage bond rates and conventional rates. Those state programs that received state appropriations to buydown mortgage rates were excluded from the analysis.

Point contributions made by the issuing agency are not counted in this analysis if the point contributions were funded from excess income on earlier bond issues. Because the excess income is a product of the mortgage bond program, it would be inappropriate to treat such a contribution as an external subsidy. For example, the continuing workability of mortgage forgiveness programs demonstrates that even after the Mortgage Subsidy Bond Tax Act, housing bond issues are capable of generating positive cash flows in the later years of the issue sufficient to provide a significant benefit to homebuyers.

It is important to note that this methodology for measuring the benefits of mortgage bonds is the same as the methodology used by the Urban Institute in its 1979 study of tax-exempt financing for housing. Not surprisingly, this HUD-sponsored study found that mortgage revenue bonds provided a 20% reduction in interest rates from conventional market levels (Peterson G. and B. Cooper, Tax-Exempt Financing of Housing Investment, Urban Institute, Washington, D.C., 1979.)

The following describes a comparison of state Housing Finance Agency mortgage rates and conventional mortgage rates (see Table 1 attached):

> Issuing Agency. This study includes all but one of the state Housing Finance Agency single family homeownership bond issues sold between January 1, 1982 and July 1, 1983 not receiving special subsidies from the state or federal government. A Puerto Rico issue is not included because accurate information on points charged could not be obtained. No home improvement bond issues are included. This analysis includes only state Housing Finance Agency issues because data on local housing bond issues were not generally available.
>
> Issue Date. The bond issue dates shown are the dates on which the bonds were sold to the underwriters
>
> Amount. The amounts shown on the table are the face amounts of the bond issue.
>
> Mortgage Rate and Points. The mortgage rates shown are the contract interest rates for the mortgage bond program. Where the program includes mandatory buydown points from sellers, the effective mortgage rate shown is adjusted to reflect this contribution. Points include all program related costs, including points paid by the seller, lender and homebuyer. Loan origination points are included. Where points can be passed from lender to seller or borrower they are not counted twice. Point information was obtained from a survey of state Housing Finance Agencies by the Council of State Housing Agencies and corroborated by a Smith, Barney, Harris, Upham and Company study.

Term. The terms shown are the maximum terms of the mortgages funded by the bond issues.

Effective Rate. The effective rate computations for the mortgage bond programs assume a ten year life for the loan (the same assumption as the FHLBB uses). The calculation of the effective rate for each mortgage bond program accounted for the contract rate and term of the loan.

Conventional Mortgage Rate

The conventional mortgage rate is the effective rate (annual percentage rate; APR) for fixed rate loans of similar term and loan-to-value ratio as the Housing Finance Agency loans. This data is provided by the Federal Home Loan Bank Board in its "National Averages for All Major Lenders: Commitment Rates and Lending Policy" series. The FHLBB series provides average monthly rates for loans of different terms and loan-to-value ratios. The 90% loan-to-value ratio was selected as being the most appropriate for comparison with mortgage bond loans. Mortgage bond loans and the conventional loan series were matched as closely as possible on an individual basis.

Some have argued that the commitment rate statistics are inappropriate because, when compared with the average yields for loans closed, the commitment rates are substantially higher. The rational for the contention is that the loans closed statistics should be used as a comparison with mortgage bonds since they portray what actually happened in the market that month.

This approach suffers from a number of major problems. In the first place, the loans closed data include all mortgage bond loans closed by conventional lenders. Particularly in 1982, mortgage revenue bond loans composed a significant portion of lender originations. Because of this, mortgage bond loans served to lower the average yield in the comparison group, thereby artifically lowering the spread between the conventional and mortgage bond rates. Furthermore, 40% or more of the loans closed series is composed of adjustable rate loans. Adjustable rate loans have lower yields in the early years because they can be adjusted upward in later years to reflect market trends. On the other hand, the vast majority of mortgage bond loans have a fixed yield for the life of the loan.

The commitment rate is a valid measure of mortgage rates free of buydowns and other external subsidies. That is exactly the statistic we are seeking. Some have argued that the rates quoted by lenders in the Bank Board survey are actually much higher than the rates at which these lenders are really willing to lend. Even if some lenders set their rates high in order to lower their mortgage loan volume, the effect to the consumer is the same in terms of the cost of mortgage financing. The commitment rate statistics are ideal for comparison with mortgage bond programs rates because both are commitment rates. To the extent that homebuyers obtaining conventional commitments chose not to close on their loans for any reason, the same phenomenon is as likely to occur with a mortgage revenue bond program commitment. Simply stated, this approach compares apples with apples. Until shown a better source of empirical data, we continue to hold that the Bank Board survey of lender commitment rates is the best existing measure of market mortgage interest rates and is entirely appropriate for a comparison with mortgage revenue bond commitment rates.

Spread and Weighted Spread

The spread between mortgage bond and matched conventional effective yields is calculated on an issue by issue basis and then weighted according to the size of the bond issue. The weighted average spread represents an accurate indicator of the subsidy provided by mortgage revenue bonds. As can be seen from Table 1, the resulting weighted average spread is 21.6% -- substantially higher than the 10% to 15% cited in the materials accompanying the bill and very close to Dr. Peterson's findings from his 1979 study for HUD.

The Standby Nature of Mortgage Bond Programs

Comparing mortgage bond program yields with lender commitment rates at the time the bonds are sold substantially underestimates the true rate spread between mortgage revenue bond mortgages and the conventional market for the consumer. The reason for this understatement of the mortgage bond subsidy is due to the fact that mortgage bond programs are six to nine month long-term optional standby commitment programs. Corresponding conventional commitments typically are for one or two months.

Why does the length of the commitment affect the conventional/mortgage revenue bond program spread? Mortgage rates are volatile. If conventional mortgage rates remained fixed from the time the bonds were sold until all of the loan acquisition fund was spent, using the spread at the time the bonds were sold would be an accurate way to gauge the interest rate break provided to homebuyers by mortgage bonds.

In fact, however, mortgage rates can vary quite widely during the period that the mortgage bond proceeds are available. Assuming that rates are as likely to go up as go down in a given period, why does this rate volatility not simply wash out? Experience shows us that consumers are very responsive to the relative spread between mortgage bond rates and the conventional market.

Many state and local agencies sold mortgage bonds during the first half of this year. Given the spread between the conventional market and mortgage bond rates, originations proceeded at a strong and steady pace. When conventional rates jumped two points during June and July, the mortgage bond money available from these earlier issues became an extraordinary bargain. Bond program originations during times like these, when conventional rates have risen, accelerate substantially. In a very real sense, consumers in the aggregate are using mortgage bond programs as a standby.

A number of bond issues were also sold shortly before the onset of a major decline in conventional mortgage rates, and subsequently, conventional lenders could undercut the rates provided through mortgage bond programs in a number of cases. Even when the conventional market rates were slightly higher than mortgage bond rates, demand for these mortgage bond issues slackened because consumers did not see the benefit of mortgage bond financing given all its encumbent restrictions.

How can we determine the value of the standby commitment offered by mortgage bonds? One approach would be to look for analogues in the conventional market. In fact, no major secondary market agency extends a standby commitment as long as that offered by mortgage bond programs. In the GNMA financial futures options market, an option on a GNMA security for delivery six months from the time of purchase would be priced to yield roughly 70 basis points more than current delivery GNMAs. This premium is charged because of the substantial interest rate risk involved with commiting to lend at a specified rate six months from the present. Every mortgage bond program that provides commitments to builders to finance new homes offers similar commitments at no additional charge. When the long-term commitment feature is taken into account, the weighted average spread between mortgage bond program rates and the conventional market rises to exactly 25%.

WILL MORTGAGE CAPITAL AVAILABILITY BE AN IMPEDIMENT TO FULL IMPLEMENTATION OF THE PROGRAM?

Mortgage capital availability should not be a barrier to full implementation of the program in most areas as long as mortgages carrying the credit remain eligible for purchase by the federally chartered secondary market agencies, the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). During times of tight credit and mortgage market volatility, the secondary market agencies play a crucial role in maintaining a supply of capital to housing. It is essential that mortgages carrying the credit certificates be eligible for purchase by these agencies so that during times of tight credit the program will remain operational.

If the mortgage credit certificate program is made workable, it is likely that state housing finance agencies and possibly some local housing authorities will issue taxable cash flow bonds to raise mortgage capital for this program. A major capital formation role for Housing Finance Agencies is particularly important in rural states and other areas of the country that do not have complete access to the mortgage capital markets.

The entry of Housing Finance Agencies into the taxable bond market should be actively encouraged as a promising way to promote pension fund investment in residential real estate. Historically, pension funds have not invested in residential real estate because there has not been a housing-related security available that afforded sufficient call protection and that paid on a biannual basis. Because of their tax-exempt status, there is no reason for pension funds to invest in tax-exempt mortgage bonds. The taxable mortgage bonds would offer pension funds an investment opportunity identical to corporate bonds.

Given access to FNMA, FHLMC and GNMA, and an active capital formation role by Housing Finance Agencies, capital availability should not be an impediment to implementation of the mortgage credit certificate program. Moreover, due to entry of Housing Finance Agencies into the taxable bond market, this program could be a key to unlocking pension funds for residential real estate investment.

DO THE TRANSITION RULES REPRESENT A FAIR TRADE-OFF OF MORTGAGE BOND AUTHORITY FOR MORTGAGE CREDIT CERTIFICATE AUTHORITY?

No. Using 1983 safe harbor bond volume ceilings and 1982 total mortgage bond issue volume as a proxy for 1983 volume, Table 2 shows that the average state would have to sacrifice about $220 million dollars in mortgage bond authority over the five-year transition period in order to participate in the mortgage credit certificate program. This is an exceptionally high price to pay to participate in a program that delivers 24% to 34% less subsidy than mortgage bonds.

Having a transition rule at all for the mortgage credit certificate program raises questions about the real meaning of the mortgage revenue bond volume limits. Congress set these limits in the Mortgage Subsidy Bond Tax Act of 1980. The fact that some states have opted not to issue bonds to the full extent of their authority should not be used as a justification for penalizing them for participating in this new program.

The justification for the transition rules for the mortgage credit certificate program appears to be that the credit certificates are considered to be much simpler to administer and, therefore, states that have not used their full mortgage bond authorization may more easily use their full authorization under the tax credit program.

To the extent that a volume problem is anticipated and Congress is unwilling to allow states to issue mortgage credit certificates to the full extent of their bond authority under existing law, then Congress should consider alternative transition rules that do not penalize states and localities so heavily for experimenting with the new program. An alternative transition rule is illustrated in Table 3. This rule is structured exactly the same as the rule in the bill except that states and localities would be entitled to 50% of the prior year's unused authority in addition to the authority used, instead of 25%. This adjustment reduces the penalty for participating in the mortgage credit certificate program to $93 million for the average state over a five-year period. As well, this transition rule is truly a fiveyear transition, returning authority levels to normal by year five. The transition rule in the bill has the average state $23 million under its baseline authority in year five.

HOW SHOULD THE PROGRAM BE ADMINISTERED?

It appears as though the program would be no more difficult to administer than the current mortgage revenue bond program, but because of the purchase price, target areas, first time homebuyer and other state and locally-imposed targeting requirements, it is important not to underestimate the complexities of the proposed mortgage credit certificate program. However, state and local agencies experienced with mortgage revenue bonds are in an ideal position to implement the program. A number of specific administrative concerns with the mortgage credit certificate proposal follow.

Enforceability

With mortgage bonds, the issuing authority has a powerful incentive to make sure that the requirements of the program are met. If there are demonstrated abuses of the program that are not quickly remedied, the outstanding tax-exempt bonds will become retroactively taxable. Under the mortgage credit certificate program, it is not clear how compliance with the rules of the program will be enforced. Will the onus for enforcement be on the individual homebuyer? This raises the possibility that homebuyers, who by no fault of their own violated the rules of the program, are severely penalized in the form of a major tax penalty. Clearly, some enforcement procedure must be developed that ensures compliance with the program rules while not placing first time homebuyers in an untenable position and thus discouraging participation in the program.

Builder Commitments

The mortgage credit certificate program should be structured to allow builders to obtain commitments that can be used to provide below market rate financing for new housing. Without a way for builders to secure the commitments directly from the issuing authority, it is unlikely that even a small portion of the mortgage credit certificates will be used to finance purchases of new housing. One of the significant benefits of mortgage revenue bond programs is that builders can obtain a long-term permanent financing commitment from the Housing Finance Agency. This commitment assures the builder that there will be a permanent "take-out" for his construction period financing. Without a commitment of this kind, the builder cannot obtain construction financing. Moreover, having a below market rate commitment allows the builder to plan and design developments specifically tailored to the affordability and lifestyle needs of moderate income first time homebuyers. Builders simply cannot take the risk of building housing for income groups that cannot afford to buy without special financing arrangements directly tied to the development. Furthermore, builders cannot run the risk that the few homebuyers in their community who may hold certificates will choose to buy homes in their development.

Underwriting

How will lenders underwrite loans that carry the mortgage credit certificate? Is it likely that lenders will qualify homebuyers for loans who, without the certificate, would not otherwise qualify? To ensure that the underwriting process will allow the mortgage credit certificates to benefit households who otherwise would be unable to afford to buy, it is essential that FNMA, GNMA and FHLMC amend their mortgage purchase rules to provide for this new program.

Administrative Costs

Administrative costs for the mortgage revenue bond program are provided for through the issuance of the bonds. How will the administrative costs of the mortgage credit certificate program be covered? If state and local agencies are expected to appropriate funds to administer the program, it is important that this requirement be noted and factored into the overall calculation of the benefits of mortgage bond programs versus the mortgage credit certificate. To the extent that state and local governments must use funds for administration that otherwise would be used to buydown mortgages on mortgage bond loans, the tax credit level should be increased accordingly.

Table 1

SHFA VERSUS CONVENTIONAL MORTGAGE RATE SPREADS

								CONVENTIONAL	NET COMPARE
TOTALS			6721.10						
WEIGHTED AVERAGES			77.25	11.76%	2.07	302.64	12.31%	15.45%	21.61%
ISSUING AGENCY	ISSUE DATE		AMOUNT ($MIL)	MORT RATE	POINTS	TERM (MO)	EFF RATE (APR)	CONVEN (APR)	SPREAD
MARYLAND	MAR 01	1982	65.00	13.90%	0.00	360	13.90%	17.71%	21.51%
WEST VIRGINIA	MAR 05		25.00	12.95%	0.00	180	12.95%	17.73%	26.96%
NEBRASKA	MAR 29		37.70	13.13%	4.00	360	13.88%	17.71%	21.63%
MONTANA	APR 06		55.00	12.50%	4.00	300	13.25%	17.59%	24.67%
INDIANA	APR 06		75.00	13.87%	2.75	300	14.26%	17.59%	18.93%
PENNSYLVANIA	APR 07		100.00	14.05%	3.00	360	14.63%	17.58%	16.78%
NEW JERSEY	APR 14		36.20	13.25%	1.50	240	13.84%	17.61%	21.41%
MISSOURI	APR 15		50.00	13.87%	1.00	228	14.07%	17.61%	20.10%
UTAH	MAY 20		121.00	12.00%	0.00	192	13.13%	17.47%	24.84%
SOUTH DAKOTA	JUN 03		24.10	11.88%	2.00	360	12.23%	17.33%	29.43%
MINNESOTA	JUN 03		30.00	12.00%	1.00	264	12.19%	17.37%	29.82%
FLORIDA	JUN 15		150.00	13.50%	3.50	192	14.25%	17.37%	17.96%
MAINE	JUN 17		53.90	13.25%	2.00	240	13.64%	17.37%	21.47%
DELAWARE	JUN 24		40.00	13.75%	1.50	240	14.05%	17.37%	19.11%
NEW HAMPSHIRE	JUL 01		167.30	13.25%	4.50	240	14.15%	17.45%	18.91%
WISCONSIN	JUL 01		100.00	13.75%	2.00	360	14.13%	17.45%	19.03%
NEW YORK	JUL 08		250.00	13.70%	2.00	360	14.08%	17.45%	19.31%
TEXAS	JUL 09		100.00	13.93%	4.50	360	14.80%	17.45%	15.19%
NEVADA	JUL 14		60.00	14.00%	1.00	192	14.21%	17.45%	18.57%
VERMONT	JUL 15		35.00	13.50%	2.00	300	13.38%	17.44%	23.28%
RHODE ISLAND	JUL 15		30.90	13.75%	2.00	204	14.16%	17.45%	18.85%
NORTH DAKOTA	JUL 15		28.90	13.50%	1.00	180	13.71%	17.45%	21.43%
HAWAII	JUL 16		60.00	13.25%	4.00	228	14.03%	17.45%	19.60%
VIRGINIA	JUL 20		100.00	13.85%	2.00	360	14.23%	17.45%	18.45%
NEBRASKA	JUL 21		89.40	13.62%	3.50	360	14.29%	17.45%	18.11%
CALIFORNIA	JUL 23		31.50	13.25%	1.00	360	13.43%	17.45%	23.04%
ARKANSAS	JUL 27		100.00	12.95%	5.00	240	13.94%	17.45%	20.11%
TENNESSEE	JUL 27		150.00	12.75%	5.00	204	13.55%	17.45%	22.35%
COLORADO	JUL 29		66.10	12.75%	3.00	204	13.12%	17.45%	24.81%
MASSACHUSETTS	JUL 30		200.00	13.70%	2.00	360	14.08%	17.45%	19.31%
ILLINOIS	JUL 30		90.00	12.85%	1.50	204	13.15%	17.45%	24.64%
MINNESOTA	AUG 12		41.90	12.00%	1.00	264	12.19%	17.21%	29.17%
LOUISIANA	AUG 13		100.00	13.25%	2.00	360	13.62%	17.17%	20.68%
PENNSYLVANIA	AUG 18		115.00	13.00%	3.00	360	13.64%	17.17%	20.56%
MISSISSIPPI	AUG 20		150.50	12.25%	3.00	180	12.87%	17.21%	25.22%
MISSOURI	AUG 24		50.00	11.75%	2.00	240	12.12%	17.21%	29.58%
NEW MEXICO	SEP 01		90.70	12.12%	5.00	360	13.03%	16.25%	19.82%
CONNECTICUT	SEP 01		150.00	11.75%	1.00	216	11.94%	16.33%	26.88%
IOWA	SEP 03		14.10	12.53%	5.00	360	13.46%	16.25%	17.17%
GEORGIA	SEP 17		50.00	11.88%	1.00	216	12.08%	16.33%	26.03%
SOUTH CAROLINA	SEP 16		82.39	11.95%	3.00	360	12.49%	16.25%	23.14%
OREGON	SEP 23		125.00	11.87%	5.00	360	12.75%	16.25%	21.54%
MARYLAND	OCT 01		87.50	11.20%	2.00	360	11.55%	15.67%	26.29%
NEW JERSEY	OCT 07		239.00	11.00%	2.00	360	11.34%	15.67%	27.63%
CALIFORNIA	OCT 07		212.00	9.95%	5.00	240	10.85%	15.76%	31.15%
VIRGINIA	OCT 19		166.10	10.42%	2.00	360	10.76%	15.67%	31.33%
ARIZONA	NOV 08		27.20	11.05%	5.00	360	11.93%	14.72%	18.95%
ALABAMA	NOV 12		100.00	11.25%	3.50	360	11.86%	14.72%	19.43%
MINNESOTA	NOV 24		45.00	10.88%	1.50	360	11.14%	14.72%	24.32%
CONNECTICUT	NOV 30		50.00	10.62%	1.00	204	10.81%	14.79%	26.91%
NEW YORK	DEC 01		151.00	12.50%	0.00	276	12.50%	14.38%	13.07%
ALABAMA	DEC 08		100.00	11.27%	3.50	360	11.88%	14.34%	17.15%
WISCONSIN	DEC 09		50.00	10.75%	2.00	360	11.09%	14.34%	22.66%
CALIFORNIA	DEC 17		101.00	10.13%	5.00	240	11.04%	14.39%	23.28%
RHODE ISLAND	DEC 30		41.10	10.75%	1.25	204	10.98%	14.39%	23.70%
RHODE ISLAND	JAN 30	1983	25.70	10.75%	2.33	192	11.21%	14.39%	22.10%
MONTANA	FEB 10		30.00	9.75%	4.00	300	10.43%	13.70%	23.87%
WYOMING	FEB 16		46.00	9.88%	2.75	300	10.30%	13.70%	24.82%
OKLAHOMA	MAR 01		91.60	9.99%	4.00	192	10.74%	13.48%	20.33%
MICHIGAN	MAR 08		80.00	9.90%	1.00	360	10.70%	13.40%	20.15%
IDAHO	MAR 10		15.40	10.27%	3.00	360	10.78%	13.40%	19.55%
HAWAII	MAR 11		50.00	10.00%	4.00	360	10.68%	13.40%	20.30%
MAINE	MAR 16		23.00	10.00%	4.50	360	10.76%	13.40%	19.70%
MISSOURI	MAR 16		49.50	9.75%	2.00	228	10.10%	13.48%	25.07%
RHODE ISLAND	MAR 17		45.90	10.25%	2.25	204	10.74%	13.48%	20.33%
WYOMING	MAR 23		40.00	9.88%	3.75	300	10.52%	13.46%	21.84%
SOUTH DAKOTA	MAR 30		28.50	10.41%	2.00	360	10.75%	13.40%	19.78%
MONTANA	APR 08		55.00	9.88%	4.75	300	10.70%	13.25%	19.25%
NORTH CAROLINA	APR 14		21.30	9.60%	3.00	360	10.09%	13.17%	23.39%
ARKANSAS	APR 14		26.40	9.62%	5.50	360	10.55%	13.17%	19.89%
COLORADO	APR 15		69.90	9.25%	3.50	360	9.82%	13.17%	25.44%
PENNSYLVANIA	APR 27		64.60	9.62%	3.00	360	10.11%	13.17%	23.23%
KENTUCKY	APR 28		50.00	9.63%	2.00	300	9.96%	13.25%	24.83%
UTAH	APR 29		51.20	9.88%	3.75	360	10.51%	13.17%	20.20%
OHIO	MAY 05		300.00	9.98%	4.00	360	10.65%	13.04%	18.33%
MASSACHUSETTS	MAY 12		54.00	9.21%	2.00	360	9.53%	13.04%	26.92%
NEW HAMPSHIRE	MAY 19		25.00	9.63%	1.50	360	9.87%	13.04%	24.31%
RHODE ISLAND	MAY 27		30.60	10.00%	2.25	204	10.42%	13.14%	20.70%
WYOMING	JUN 08		45.00	10.00%	4.00	300	10.69%	13.15%	18.71%
NORTH DAKOTA	JUN 09		29.90	10.65%	4.50	360	11.43%	13.09%	12.68%
INDIANA	JUN 16		45.00	10.30%	4.00	360	11.06%	13.09%	15.51%
IDAHO	JUN 21		35.00	10.21%	1.00	360	10.38%	13.09%	20.70%
PENNSYLVANIA	JUN 24		70.00	10.23%	3.50	360	10.82%	13.09%	17.34%
MAINE	JUN 29		20.70	10.00%	4.00	360	10.67%	13.09%	18.49%
OHIO	JUN 29		110.00	10.65%	4.00	360	11.34%	13.09%	13.37%
RHODE ISLAND	JUN 29		50.90	10.25%	2.75	204	10.77%	13.16%	18.16%
NEW YORK	JUN 30		170.00	9.90%	4.00	360	10.57%	13.09%	19.25%

State HFA bond program data supplied by the Council of State Housing Agencies and Smith Barney Harris Upham and Co. Conventional mortgage market information from Federal Home Loan Bank Board survey of all mortgage lenders.

Prepared by National Assoc of Home Builders Mortgage Finance Division.

August 1983

Table 2

ILLUSTRATION OF PROPOSED TRANSITION RULES FOR MORTGAGE CREDIT CERTIFICATE

	SAFE HARBOR AUTHORITY ($MIL)	BOND VOLUME ($MIL)	MCCs ISSUED ($MIL)	MRB AUTH SACRIFICED ($MIL)	REMAIN MRB AUTHORITY ($MIL)	TOTAL ASSIST (MRBs & MCCs) ($MIL)
YEAR 1	255	159	0	0.00	255.00	255.00
YEAR 1	255	159	50	72.00	133.00	183.00
YEAR 1	255	159	100	72.00	83.00	183.00
YEAR 1	255	159	159	72.00	24.00	183.00
YEAR 1	255	159	183	72.00	0.00	183.00
YEAR 2	255	159	0	0.00	255.00	255.00
YEAR 2	255	159	50	54.00	151.00	201.00
YEAR 2	255	159	100	54.00	101.00	201.00
YEAR 2	255	159	159	54.00	42.00	201.00
YEAR 2	255	159	183	54.00	18.00	201.00
YEAR 3	255	159	0	0.00	255.00	255.00
YEAR 3	255	159	50	40.50	164.50	214.50
YEAR 3	255	159	100	40.50	114.50	214.50
YEAR 3	255	159	159	40.50	55.50	214.50
YEAR 3	255	159	183	40.50	31.50	214.50
YEAR 4	255	159	0	0.00	255.00	255.00
YEAR 4	255	159	50	30.38	174.63	224.63
YEAR 4	255	159	100	30.38	124.63	224.63
YEAR 4	255	159	159	30.38	65.63	224.63
YEAR 4	255	159	183	30.38	41.63	224.63
YEAR 5	255	159	0	0.00	255.00	255.00
YEAR 5	255	159	50	22.78	182.22	232.22
YEAR 5	255	159	100	22.78	132.22	232.22
YEAR 5	255	159	159	22.78	73.22	232.22
YEAR 5	255	159	183	22.78	49.22	232.22

TOTAL MRB AUTHORITY SACRIFICED BY THE AVERAGE
STATE ISSUING MORTGAGE CREDIT
CERTIFICATES DURING EACH OF THE FIVE TRANSITION YEARS-- $219.66 MILLION

AVERAGE STATE BOND VOLUME SAFE HARBOR BASED ON IRS 1983 STATE AVERAGE SAFE HARBORS FOR MORTGAGE REVENUE BONDS.
MORTGAGE BOND VOLUME IS BASED ON STATE AVERAGE MRB VOLUME FOR 1982.

PREPARED BY NATIONAL ASSOC OF HOME BUILDERS MORTGAGE FINANCE DIVISION.

AUGUST 1983

Table 3

ALTERNATIVE TRANSITION RULES FOR MORTGAGE CREDIT CERTIFICATE

	SAFE HARBOR AUTHORITY ($MIL)	1983 BOND VOLUME ($MIL)	MCCs ISSUED ($MIL)	MRB AUTH SACRIFICED ($MIL)	REMAIN MRB AUTHORITY ($MIL)	TOTAL ASSIST (MRBs & MCCs) ($MIL)
YEAR 1	255	159	0	0.00	255.00	255.00
YEAR 1	255	159	50	48.00	157.00	207.00
YEAR 1	255	159	100	48.00	107.00	207.00
YEAR 1	255	159	159	48.00	48.00	207.00
YEAR 1	255	159	183	48.00	24.00	207.00
YEAR 2	255	159	0	0.00	255.00	255.00
YEAR 2	255	159	50	24.00	181.00	231.00
YEAR 2	255	159	100	24.00	131.00	231.00
YEAR 2	255	159	159	24.00	72.00	231.00
YEAR 2	255	159	183	24.00	48.00	231.00
YEAR 3	255	159	0	0.00	255.00	255.00
YEAR 3	255	159	50	12.00	193.00	243.00
YEAR 3	255	159	100	12.00	143.00	243.00
YEAR 3	255	159	159	12.00	84.00	243.00
YEAR 3	255	159	183	12.00	60.00	243.00
YEAR 4	255	159	0	0.00	255.00	255.00
YEAR 4	255	159	50	6.00	199.00	249.00
YEAR 4	255	159	100	6.00	149.00	249.00
YEAR 4	255	159	159	6.00	90.00	249.00
YEAR 4	255	159	183	6.00	66.00	249.00
YEAR 5	255	159	0	0.00	255.00	255.00
YEAR 5	255	159	50	3.00	202.00	252.00
YEAR 5	255	159	100	3.00	152.00	252.00
YEAR 5	255	159	159	3.52	93.00	252.00
YEAR 5	255	159	183	3.00	69.00	252.00

TOTAL MRB AUTHORITY SACRIFICED BY THE AVERAGE STATE ISSUING ONE DOLLAR OR MORE IN MORTGAGE CREDIT CERTIFICATES DURING EACH OF THE FIVE TRANSITION YEARS-- $93.00 MILLION

AVERAGE STATE BOND VOLUME SAFE HARBOR BASED ON IRS 1983 STATE AVERAGE SAFE HARBORS FOR MORTGAGE REVENUE BONDS.
MORTGAGE BOND VOLUME IS BASED ON STATE AVERAGE MRB VOLUME FOR 1982.

PREPARED BY NATIONAL ASSOC OF HOME BUILDERS MORTGAGE FINANCE DIVISION.

AUGUST 1983

STATEMENT OF WAYNE MILLSAP, CHAIRMAN, MISSOURI HOUSING DEVELOPMENT COMMISSION, KANSAS CITY, MO., ON BEHALF OF THE COUNCIL OF STATE HOUSING AGENCIES, WASHINGTON, D.C.

The CHAIRMAN. Do you live in Kansas City now?

Mr. MILLSAP. No. I'm in St. Louis.

The CHAIRMAN. That's what I thought.

Mr. MILLSAP. The Housing Commission office is in Kansas City. My family is in St. Louis where I am an attorney.

The CHAIRMAN. Well, I will know where to find you if I go to Missouri.

Mr. MILLSAP. Mr. Chairman, members of the committee, my name is Wayne Millsap of St. Louis, Mo. I'm here today on behalf of the Council of State Housing Agencies to comment on S. 1598, the First Time Homebuyers Assistance Act of 1983.

I will make three key points and request that my written testimony be printed in the record in its entirety.

The CHAIRMAN. It will be.

Mr. MILLSAP. No. 1. We acknowledge the chairman for his sensitivity to the issue of meeting this Nation's housing needs during the 1980's and beyond. Additionally, you have demonstrated, I think, great creativity in introducing S. 1598.

No. 2. For over a decade, tax exempt financing has proven to be an effective tool for housing assistance. But we recognize that we must be flexible and try new methods. Therefore, we support S. 1598.

No. 3. We have reviewed the proposed mortgage credit certificate plan, and have questions about the results it will produce. However, we are willing to cooperate to make the program successful, though not as a substitute for mortgage revenue bonds.

Our support of S. 1598 in no way alters our primary commitment to the continued use of tax exempt financing for housing.

Thank you. I would welcome any questions.

The CHAIRMAN. I think I have a couple of technical questions for later.

[The prepared statement of Wayne Millsap follows:]

TESTIMONY OF
WAYNE MILLSAP, CHAIRMAN
MISSOURI STATE HOUSING COMMISSION
REPRESENTING THE
COUNCIL OF STATE HOUSING AGENCIES
BEFORE THE
SENATE FINANCE COMMITTEE

SEPTEMBER 13, 1983

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS WAYNE MILLSAP. I AM CHAIRMAN OF THE MISSOURI HOUSING COMMISSION, AN AGENCY WHICH HAS BEEN IN THE BUSINESS OF PROVIDING HOUSING ASSISTANCE SINCE 1971 AND HAS FINANCED OVER 25,000 UNITS OF HOUSING FOR THE LOW AND MODERATE INCOME RESIDENTS OF THE STATE OF MISSOURI.

TODAY, I REPRESENT THE COUNCIL OF STATE HOUSING AGENCIES, AND ITS COMPANION ORGANIZATION, THE NATIONAL CONFERENCE OF STATE HOUSING FINANCE AGENCY CHAIRPERSONS. THE COUNCIL AND CONFERENCE ARE ASSOCIATIONS OF STATE HOUSING FINANCE AGENCIES IN 49 STATES, THE DISTRICT OF COLUMBIA, PUERTO RICO, AND THE VIRGIN ISLANDS. FOR TODAY'S HEARING, I WILL PROVIDE A BRIEF SUMMARY OF THIS STATEMENT, AND ASK THAT MY WRITTEN REMARKS BE REPRINTED IN THE RECORD IN THEIR ENTIRETY.

THE COUNCIL OF STATE HOUSING AGENCIES IS COMMITTED TO THE GOAL OF PROVIDING ASSISTANCE TO FAMILIES THAT OTHERWISE MIGHT NOT HAVE THE OPPORTUNITY TO BECOME HOMEOWNERS. WE COMMEND SENATOR DOLE FOR RECOGNIZING THE NEED TO CONTINUE THIS ASSISTANCE. AS REPORTED RECENTLY IN THE WASHINGTON POST, THE CHIEF OF THE HOUSING DIVISION OF THE CENSUS BUREAU, ARTHUR F. YOUNG, HAS OBSERVED A DECLINE IN THE

PERCENTAGE OF HOMEOWNERS IN THE UNITED STATES FOR THE FIRST TIME SINCE THE GREAT DEPRESSION:

> THE NATIONAL DEREGULATION OF FINANCIAL INSTITUTIONS TWO YEARS AGO, PLUS HEAVY FEDERAL DEFICITS, HAVE RAISED THE COST OF MORTGAGE MONEY BEYOND THE REACH OF MILLIONS OF PEOPLE WHO CONSIDER THEMSELVES FUTURE HOMEOWNERS.
>
> "WE'RE TELLING PEOPLE, IN EFFECT, YOU CAN'T BE A PART OF THE SYSTEM, YOU CAN'T HAVE A PIECE OF PROPERTY, HOWEVER SMALL IT MAY BE," YOUNG SAID.
>
> "THAT, IN MY OPINION, IS SOCIAL DYNAMITE IN A SOCIETY LIKE OURS. WE ARE ON THE VERGE OF BREAKING A FUNDAMENTAL SOCIAL COMPACT AMONG ECONOMIC CLASSES THAT WE HAVE HAD FOR DECADES: WORK HARD, BE PART OF THE CAPITALIST SYSTEM, AND ONE DAY YOU OR YOUR CHILDREN WILL BECOME PROPERTY OWNERS.

WHAT THE CENSUS OFFICIAL HAS DIAGNOSED, SENATOR DOLE HAS ALSO RECOGNIZED IN THE INTRODUCTION OF HIS PROPOSAL. THIS IS THE SAME PROBLEM THAT STATE HOUSING FINANCE AGENCIES ADDRESS WITH THEIR CURRENT MORTGAGE BOND PROGRAMS.

FOR OVER A DECADE, STATE HOUSING FINANCE AGENCIES HAVE SERVED THE GOAL OF INCREASING HOMEOWNERSHIP OPPORTUNITIES THROUGH THE SALE OF TAX-EXEMPT REVENUE BONDS FOR HOME MORTGAGES. TAX-EXEMPT FINANCING IS A PROVEN AND EFFECTIVE VEHICLE FOR PROVIDING THIS ASSISTANCE, BUT WE RECOGNIZE THAT IT MAY NOT BE THE ONLY WAY.

BECAUSE OUR FIRST PRIORITY IS EXPANDING OPPORTUNITIES FOR HOMEOWNERSHIP, WE SUPPORT THE DEVELOPMENT OF ANY NEW PROGRAM WHICH HAS THE POTENTIAL FOR SERVING THE SAME GOAL. FOR THAT REASON, WE TESTIFY TODAY IN SUPPORT OF LEGISLATION TO CREATE MORTGAGE TAX CREDITS AS ANOTHER TOOL TO BE USED ALONG WITH MORTGAGE REVENUE BONDS TO MEET THE NEEDS OF FIRST-TIME HOMEBUYERS.

WE DO HAVE RESERVATIONS ABOUT THE FORM OF THE PROPOSAL, THOUGH, AND WHAT THE PROGRAM MAY ACTUALLY PRODUCE IN PRACTICE.

WE MUST EMPHASIZE THE IMPORTANCE OF RETAINING THE PROVEN TOOL OF TAX-EXEMPT FINANCING. ELIMINATION OF THE DECEMBER 31, 1983 SUNSET DATE IN THE MORTGAGE SUBSIDY BOND TAX ACT MUST BE THE FIRST PRIORITY, WITHOUT DIMINISHING ITS SCOPE OR PURPOSE.

THE ROLE OF STATE HOUSING FINANCE AGENCIES

STATE HOUSING FINANCE AGENCIES HAVE AN OBVIOUS INTEREST IN S. 1598 BECAUSE THE PROPOSED TAX CREDIT PROGRAM BUILDS OFF THEIR LONGSTANDING MORTGAGE REVENUE BOND PROGRAMS. WE APPLAUD THE SENATOR'S INTENTION TO TAKE ADVANTAGE OF A NATIONAL NETWORK OF STATE AND LOCAL HOUSING FINANCE AGENCIES TO OPERATE THE TAX CREDIT PROGRAM. MORE THAN ANY OTHER SET OF INSTITUTIONS, THESE AGENCIES HAVE THE SKILLS AND THE EXPERIENCE TO MAKE HOUSING ASSISTANCE PROGRAMS WORK.

COLLECTIVELY, STATE HOUSING FINANCE AGENCIES HAVE FINANCED NEARLY ONE MILLION HOUSING UNITS, ABOUT HALF FOR HOMEBUYERS AND HALF FOR LOW INCOME TENANTS. WE HAVE ADAPTED THE TAX-EXEMPT FINANCING TOOL TO HOME PURCHASE, HOME IMPROVEMENT AND RENTAL HOUSING PROGRAMS SO SUCCESSFULLY THAT HOUSING FINANCE AGENCIES HAVE BEEN ESTABLISHED IN EVERY STATE IN LITTLE MORE THAN A DECADE (INCLUDING STATE-LEVEL AGENCIES IN 49 STATES).

STATE AGENCIES HAVE PROVIDED THE FINANCING FOR ABOUT ONE-THIRD OF ALL FEDERALLY SUBSIDIZED SECTION 8 HOUSING FOR LOW INCOME FAMILIES. AT THE SAME TIME, THEY HAVE PROVIDED OWNERSHIP AND RENTAL OPPORTUNITIES FOR FAMILIES AND SENIOR CITIZENS WITHOUT DIRECT FEDERAL ASSISTANCE. ALL ACROSS THE COUNTRY, WE HAVE SKILLED HOUSING

PERSONNEL OPERATING SOUND PROGRAMS, IN CONTRAST TO SOME OF THE PROBLEMS WITH FEDERAL HOUSING PROGRAMS. HOUSING FINANCE AGENCIES HAVE BEEN THE GREAT HOUSING SUCCESS STORY OF THE LAST DECADE.

STATE HOUSING FINANCE AGENCIES DO NOT EXIST FOR THE PURPOSE OF SELLING TAX-EXEMPT BONDS, THOUGH. OUR PURPOSE IS TO PROVIDE ASSISTANCE TO THE RESIDENTS OF OUR STATES IN THE MOST EFFECTIVE AND EFFICIENT MANNER POSSIBLE. BECAUSE OF OUR SINCERE INTEREST IN FURTHERING THAT GOAL, STATE HOUSING FINANCE AGENCIES ARE WILLING TO EXPLORE AND DEVELOP ALTERNATIVE METHODS OF DELIVERING THAT ASSISTANCE.

IN THE BRIEF PERIOD SINCE THE INTRODUCTION OF S. 1598, WE HAVE CONDUCTED AN INTENSIVE REVIEW OF THE PROPOSED MORTGAGE CREDIT CERTIFICATE PLAN. IN ALL CANDOR, WE MUST TELL YOU THAT MANY OF OUR AGENCIES FEAR THIS BILL IS YET ANOTHER ATTEMPT BY THE FEDERAL GOVERNMENT TO REDUCE THE EFFECTIVENESS AND INDEPENDENCE OF STATE AGENCIES. THEY VIEW IT AS ANOTHER IN A LONG SERIES OF ATTEMPTS TO CURB THE USE OF TAX-EXEMPT BONDS.

HOWEVER, OUR CONSENSUS POSITION IS THAT THE PROPOSED PROGRAM OFFERS AN OPPORTUNITY FOR FEDERAL, STATE AND LOCAL GOVERNMENTS TO WORK TOGETHER TO DEVELOP AN ALTERNATIVE METHOD OF MEETING OUR ULTIMATE GOAL. ALTHOUGH WE HAVE A NUMBER OF QUESTIONS, WE ARE COMMITTED TO SEEING IF IT CAN BECOME A WORKABLE TOOL.

ONLY TIME WILL TELL IF THE MORTGAGE CREDIT CERTIFICATE PROGRAM WILL FULFILL THE PROMISE OF ITS PROPONENTS. IN THE MEANTIME THE FIRST PRIORITY OF CONGRESS MUST BE TO ELIMINATE THE DECEMBER 31, 1983 SUNSET DATE ON THE MORTGAGE REVENUE BONDS, WITHOUT PROGRAM KILLING RESTRICTIONS. WE ASK THE CONGRESS NOT TO TAKE AWAY A PROGRAM THAT

WE KNOW CAN HELP ADDRESS THE HOUSING NEEDS OF THE EIGHTIES.

QUESTIONS ABOUT THE MORTGAGE TAX CREDIT PROGRAM

IN OUR EVALUATION OF THE MORTGAGE TAX CREDIT PROPOSAL, MANY QUESTIONS HAVE BEEN RAISED ABOUT POTENTIAL TROUBLE SPOTS IN OPERATING THE PROGRAM. WE ARE CONCERNED ABOUT ASPECTS IN WHICH TAX CREDITS DO NOT MEASURE UP TO TAX-EXEMPT FINANCING, CREATING DISINCENTIVES FOR STATE AND LOCAL AGENCIES TO TRY THE NEW PROGRAM. WE ALSO ASK WHETHER SOME ELEMENTS OF THE PROPOSAL HAVE BEEN OVER SOLD, PARTICULARLY ITS VALUE OVER MORTGAGE REVENUE BONDS AND ALLEDGED ADMINISTRATIVE SIMPLICITY.

1. WILL TAX CREDITS EFFECTIVELY SERVE FAMILIES WHO OTHERWISE COULD NOT OBTAIN A MORTGAGE LOAN?

MANY STATE HOUSING OFFICIALS, WITH LONG EXPERIENCE IN DEALING WITH FINANCIAL INSTITUTIONS AS PART OF THEIR MORTGAGE BOND PROGRAMS, QUESTION WHETHER TAX CREDITS WILL EFFECTIVELY SERVE LOWER INCOME BUYERS USING ONLY PRIVATE SOURCES OF CREDIT. IN PART, THEIR CONCERN STEMS FROM STANDARD PRACTICES IN UNDERWRITING MORTGAGE LOANS.

LENDERS TYPICALLY USE GROSS OR PRE-TAX INCOME AS THE MEASURE OF AN APPLICANT'S ABILITY TO REPAY A MORTGAGE. FNMA AND FHLMC UNDERWRITING GUIDELINES REINFORCE THIS PRACTICE. WHILE SOME LENDERS MAY ADJUST THEIR PROCEDURES FOR TAX CREDIT RECIPIENTS, THIS KIND OF CHANGE IS UNLIKELY TO OCCUR WITHOUT SOME EDUCATION AND PERSUASION. IN THE CASE OF CONSERVATIVE FINANCIAL INSTITUTIONS, THE ADJUSTMENT

MAY NOT HAPPEN AT ALL.

PERHAPS EQUALLY IMPORTANT IS OUR CONCERN ABOUT THE WILLINGNESS OF PRIVATE LENDERS TO EXTEND CREDIT TO BORROWERS ONLY BARELY ABLE TO AFFORD A MORTGAGE. DESPITE THE TAX CREDIT, THESE BORROWERS MAY BE VIEWED AS TOO GREAT A RISK BECAUSE OF THEIR INABILITY TO ABSORB UNEXPECTED INCREASES IN THE COST OF MAINTAINING THEIR HOMES—AND THEREFORE PUT THE MORTGAGE AT RISK.

STATE HOUSING OFFICIALS ALSO QUESTION WHETHER PARTICIPANTS IN THE TAX CREDIT PROGRAM WILL BE ABLE TO OBTAIN MORTGAGE CREDIT AT TERMS WHICH THEY CAN HANDLE. HIGH DOWNPAYMENTS AND ADJUSTABLE RATE MORTGAGES MAY ACT AS A BARRIER TO THOSE WHO NEED THE ASSISTANCE OF TAX CREDITS THE MOST.

ALL OF THESE FACTORS ADD UP TO THE FEAR THAT TAX CREDITS MAY LARGELY BENEFIT FAMILIES WHO WOULD HAVE OBTAINED A MORTGAGE LOAN WITHOUT THE CREDIT. TO PROTECT AGAINST THIS, ADMINISTRATORS OF THE CREDIT PROGRAM MAY FIND IT NECESSARY TO REGULATE LENDING PRACTICES IN CONJUNCTION WITH THE USE OF THESE CERTIFICATES. FOR EXAMPLE, IN ORDER TO QUALIFY FOR A CERTIFICATE, ADMINISTRATORS MAY PRESCRIBE MORTGAGE TERMS OR REQUIRE CERTAIN AFFIRMATIVE LENDING PRACTICES ON THE PART OF PARTICIPATING LENDERS.

ALTERNATIVELY, STATE OR LOCAL AGENCIES MAY ALSO REMEDY THESE PROBLEMS BY CREATING FUNDING PACKAGES FOR THE PRIVATE SECTOR WHICH WOULD LESSEN THE PERCEIVED RISK TO PRIVATE LENDING INSTITUTIONS. THIS FINANCING COULD BE PROVIDED SEPARATELY OR IN CONJUNCTION WITH FEDERALLY SUPPORTED MORTGAGE PROGRAMS IN SUCH A WAY AS TO INCREASE THE AVAILABLE SUPPLY OF MORTGAGE CREDIT.

FINALLY, A WORD SHOULD BE ADDED ABOUT THE POTENTIAL FOR

REACHING LOWER INCOME FAMILIES THROUGH THE USE OF TAX CREDITS. WHILE STATE HOUSING FINANCE AGENCIES EXPRESS CONCERN ABOUT THE ABILITY OF THE TAX CREDIT OPTION TO REACH THE SAME MARKET AS SERVED BY MORTGAGE BONDS, PROPONENTS OF THE LEGISLATION SUGGEST THAT THE NEW PROGRAM COULD REACH EVEN LOWER INCOME FAMILIES. THEY BASE THIS CLAIM ON THE FACT THAT TAX CREDITS MAY BE VARIED IN SIZE, SO THAT LOWER INCOME BORROWERS CAN RECEIVE A DEEPER SUBSIDY THAN IS AVAILABLE WITH MORTGAGE BONDS.

CLAIMS THAT THE PROGRAM CAN SERVE A LOWER INCOME POPULATION MUST BE CAREFULLY EXAMINED, NOT ONLY BECAUSE OF THE ARGUMENTS RAISED EARLIER BUT ALSO BECAUSE OF COMPLICATIONS WITH A REFUNDABLE CREDIT. THE LEGISLATION PROVIDES FOR A REFUND IN THE CASE OF FAMILIES WITH TAX LIABILITIES SMALLER THAN THE CREDIT OWED TO THEM. IT IS HIGHLY UNLIKELY THAT A PRIVATE LENDER WOULD TAKE A REFUND INTO ACCOUNT WHEN UNDERWRITING A MORTGAGE BECAUSE IT WOULD COME IN A LUMP SUM AT THE END OF THE YEAR, RATHER THAN AS PART OF THE BORROWER'S MONTHLY CASH FLOW.

IN ADDITION, SUCH REFUNDS WOULD PROBABLY BE SUBJECT TO THE APPROPRIATIONS PROCESS, CAUSING LENDERS TO VIEW THEM AS AN UNSTABLE SOURCE OF INCOME. IF THE QUESTION OF REFUNDABILITY FORCES THE REFERRAL OF THIS LEGISLATION TO THE APPROPRIATIONS COMMITTEE, WE WOULD SUGGEST SEPARATING THE ISSUE SO AS NOT TO SLOW UP A TAX BILL ON THIS ISSUE OR ON THE ELIMINATION OF THE DECEMBER 31, 1983 SUNSET PROVISION.

2. CAN THE PROGRAM BE PUT IN PLACE QUICKLY AND EFFICIENTLY?

BY BUILDING OFF OF THE MORTGAGE REVENUE BOND PROGRAM, THE TAX CREDIT PROPOSAL TAKES ADVANTAGE OF THE EXISTING NETWORK OF STATE AND LOCAL HOUSING FINANCE AGENCIES WHICH OPERATE HOMEOWNERSHIP ASSISTANCE PROGRAMS ACROSS THE COUNTRY. AS WE UNDERSTAND THE LEGISLATION, IT INTENDS FOR THESE AGENCIES, WHICH NOW ISSUE TAX-EXEMPT BONDS FOR HOUSING, TO BE GIVEN THE OPTION TO USE MORTGAGE CREDIT CERTIFICATES TO ACHIEVE THE SAME GOALS. WE BELIEVE THAT THIS IS AN APPROPRIATE AND EFFICIENT ARRANGEMENT, WHICH MAKES USE OF EXPERTISE ALREADY IN PLACE TO HELP MAKE THE NEW PROGRAM WORK.

AS IT IS PRESENTLY WORDED, THE LEGISLATION MAY LEAD TO SOME CONFUSION ABOUT THE AUTHORITY TO ISSUE BONDS VERSUS THE AUTHORITY TO OPERATE A MORTGAGE CREDIT CERTIFICATE PROGRAM. UNDER SECTION 103A OF THE INTERNAL REVENUE CODE, THE VOLUME OF MORTGAGE REVENUE BONDS THAT ANY STATE MAY ISSUE IS DIVIDED HALF TO THE STATE HOUSING FINANCE AGENCY AND HALF TO THE LOCAL ISSUERS, UNLESS STATE LAW OR A GOVERNOR'S DIRECTIVE PROVIDES OTHERWISE. THIS ALLOCATION PROCESS IS AN ESTABLISHED PROCEDURE IN THE STATES AND ELIGIBLE ISSUERS OF MORTGAGE BONDS HAVE BEEN IDENTIFIED.

S. 1598 PROVIDES THAT MORTGAGE CREDIT CERTIFICATE PROGRAMS MAY BE "ESTABLISHED BY A STATE OR POLITICAL SUBDIVISION THEREOF FOR ANY CALENDAR YEAR FOR WHICH IT IS AUTHORIZED TO ISSUE MORTGAGE SUBSIDY BONDS." TO ENSURE A SMOOTH TRANSITION INTO THE NEW PROGRAM, AND TO PREVENT AN UNNECESSARY DISRUPTION OF THE ALLOCATION PROCESS ESTABLISHED BY SECTION 103A, THE LEGISLATION SHOULD BE AMENDED TO STATE THE FOLLOWING: THAT UNLESS OTHERWISE PROVIDED UNDER STATE

LAW, A MORTGAGE CREDIT CERTIFICATE PROGRAM MAY BE ESTABLISHED AND CARRIED OUT BY ANY AGENCY WITHIN THE STATE WHICH IS AUTHORIZED TO ADMINISTER MORTGAGE SUBSIDY BOND PROGRAMS. WE WOULD BE PLEASED TO WORK WITH THE COMMITTEE ON A CLARIFYING AMENDMENT.

3. HOW WILL THE PROGRAM BE ADMINISTERED AND WHO WILL PAY?

ADVOCATES OF THE MORTGAGE CREDIT CERTIFICATE PLAN CLAIM THAT ONE OF ITS GREATEST ADVANTAGES IS THE SIMPLICITY OF ADMINISTERING A TAX CREDIT PROGRAM. WE BELIEVE THIS ADVANTAGE HAS BEEN OVERSOLD. MORTGAGE TAX CREDITS WOULD NOT BE A SIMPLE LINE ITEM, UNIVERSALLY AVAILABLE TO ALL QUALIFIED TAXPAYERS. AS A LIMITED RESOURCE IT WILL NOT BE SELF-EXECUTING AS IS MUCH OF TAX LAW. RATHER, IT WILL REQUIRE SCREENING APPLICANTS FOR ELIGIBILITY, WORKING WITH PARTICIPANTS IN THE PROGRAM TO TURN CERTIFICATES INTO MORTGAGE INTEREST PAYMENTS, AND ENFORCING PROGRAM REQUIREMENTS.

IT HAS BEEN SUGGESTED THAT A LARGE PORTION OF THE ADMINISTRATIVE RESPONSIBILITIES UNDER THE TAX CREDIT PROGRAM COULD BE TURNED OVER TO PRIVATE LENDERS. AS IN THE MORTGAGE REVENUE BOND PROGRAM, PRIVATE LENDING INSTITUTIONS WILL UNDOUBTEDLY DO MUCH OF THE SCREENING OF APPLICANTS; AND AS IN THE BOND PROGRAM, THEY WILL REQUIRE SOME COMPENSATION FOR THE ADDED BURDEN OF PROCESSING AN APPLICATION WITH A CREDIT CERTIFICATE. BUT CERTAINLY, THE RESPONSIBILITY FOR ADMINISTERING THE PROGRAM MUST REMAIN WITH PUBLIC ENTITIES SUCH AS STATE AND LOCAL HOUSING FINANCE AGENCIES. IF NOT, THE NEED FOR REGULATION WILL FALL MORE TO THE FEDERAL GOVERNMENT AND THE PROGRAM WILL SUFFER BECAUSE OF THE LACK OF STATE AND LOCAL

RESPONSIBILITY.

MUCH HAS BEEN MADE OF THE FACT THAT THE TAX CREDIT LEGISLATION PROVIDES NO SOURCE OF FUNDING TO OPERATE THE PROGRAM AND ENFORCE ITS REQUIREMENTS. IT SHOULD BE POINTED OUT, HOWEVER, THAT IN THE CASE OF TAX-EXEMPT FINANCING PROGRAMS, THE COST OF ADMINISTRATION IS LARGELY PAID BY THE BORROWER THROUGH FEES CHARGED IN THE MORTGAGE LENDING PROCESS. THE TAX CREDIT PROGRAM MAY ADOPT THE SAME PRINCIPLE, BUT WHERE IT OPERATES WITH PRIVATE SOURCES OF MORTGAGE CAPITAL, SPECIAL PROVISION MUST BE MADE TO PAY FOR THE STATE OR LOCAL AGENCY'S COST OF RUNNING THE PROGRAM. THESE EXPENSES MUST EITHER BE COVERED BY APPROPRIATIONS OR BY EARNINGS FROM FINANCING COMPONENTS OF THE TAX CREDIT PROGRAM.

THE PRESENT SYSTEM OF FUNDING THE OPERATION OF MORTGAGE BOND PROGRAMS NOT ONLY MAKES THEM SELF-SUPPORTING, BUT ALSO RESULTS IN A HIGH DEGREE OF ADMINISTRATIVE EFFICIENCY, FOR WHICH THESE PROGRAMS ARE LAUDED. A SIMILAR FINANCING ROLE FOR STATE AND LOCAL GOVERNMENT IN THE TAX CREDIT PROGRAM WOULD PROVIDE AN ANSWER TO THE QUESTION OF ADMINISTRATIVE COSTS, AND AT THE SAME TIME ADDRESS A NUMBER OF OTHER QUESTIONS ABOUT THE WORKABILITY OF THE PROPOSAL, (INCLUDING DIRECTLY INCREASING THE SUPPLY OF HOUSING CREDIT).

IN EVALUATING THE TAX CREDIT PLAN, CONGRESS MUST CONSIDER THE POSSIBILITY THAT IT MAY INCREASE THE BURDEN ON THE FEDERAL GOVERNMENT TO MAKE SURE THAT ITS REQUIREMENTS ARE MET. ALTHOUGH THE TARGETING REQUIREMENTS IN THE MORTGAGE SUBSIDY BOND TAX ACT (WHICH WOULD ALSO APPLY TO THE TAX CREDIT PROGRAM) MAY SEEM SIMPLE ENOUGH IN THEORY, IN PRACTICE, THEY REQUIRE ENORMOUS TIME AND EFFORT TO ENFORCE.

FOR EXAMPLE, THE FIRST-TIME HOMEBUYER REQUIREMENT IS MORE COMPLICATED THAN SIMPLY OBTAINING COPIES OF PAST YEARS' TAX FORMS (WHICH MAY BE DIFFICULT ENOUGH, IN AND OF ITSELF). THERE ARE MANY INSTANCES IN WHICH PRIOR HOMEOWNERSHIP MAY NOT BE EVIDENT, SUCH AS IN THE CASE OF A SPOUSE WHO OWNED A HOME IN A PREVIOUS MARRIAGE OR WHEN THE APPLICANT HAS OWNED A MOBILE HOME. ENFORCEMENT OF SALES PRICE LIMITS IS ALSO COMPLICATED BY DIFFERENCES BETWEEN TARGETED AND UNTARGETED AREAS AND BY THE FACT THAT "ACQUISITION COST," FOR PURPOSES OF THE TAX ACT, MAY NOT BE THE SAME AS THE ACTUAL PURCHASE PRICE. AT PRESENT, STATE AND LOCAL HOUSING AGENCIES EXERCISE EXTREME DILIGENCE IN ENFORCING THESE REQUIREMENTS, BECAUSE THE TAX EXEMPTION OF THEIR BONDS DEPENDS ON IT. BECAUSE SO MUCH IS AT STAKE, THE CURRENT PROGRAM POLICES ITSELF. WITH THE TAX CREDIT PROGRAM, THERE WILL BE LESS OF AN INCENTIVE TO MAKE SURE THAT COMPLICATED FEDERAL REQUIREMENTS ARE ENFORCED. AS A RESULT, ADDITIONAL FEDERAL OVERSIGHT MAY BE REQUIRED.

IN CASE IT APPEARS THAT WE ARE PLACING TOO MUCH EMPHASIS ON ADMINISTATIVE CONCERNS, WE ADD AN IMPORTANT NOTE OF CAUTION. PAST FEDERAL PROGRAMS TO INCREASE THE OPPORTUNITY FOR HOMEOWNERSHIP AMONG LOWER INCOME FAMILIES HAVE OFTEN RESULTED IN DISASTER. THE EARLY SECTION 235 PROGRAM AND OTHER CREDIT EFFORTS PRODUCED THOUSANDS OF FORECLOSURES, ABANDONED PROPERTIES, SCANDAL, AND EVEN CRIMINAL CONVICTIONS. TIGHTER CONTROLS AND MORE DIRECT OVERSIGHT WERE NEEDED TO ENSURE ACCOUNTABILITY AND SUCCESS IN THESE PROGRAMS.

WE RAISE THIS POINT BECAUSE THE FINANCE COMMITTEE MAY NOT BE AS WELL AWARE OF THESE PROBLEMS AS ARE OTHER COMMITTEES WITH DIRECT HOUSING RESPONSIBILITIES. STATE HOUSING FINANCE AGENCIES ARE WELL

ACQUAINTED WITH THIS RECORD, HAVING STEPPED IN AND WORKED OUT MANY OF THE PROBLEMS. OUR OWN MORTGAGE BOND PROGRAMS HAVE AVOIDED SUCH DIFFICULTIES THROUGH DILIGENT AND CONSCIENTIOUS PROGRAM ADMINISTRATION. THUS, WE CANNOT OVEREMPHASIZE THE IMPORTANCE OF ADMINISTRATIVE FACTORS IN ANY NEW ASSISTANCE PROGRAM.

4. DOES THE LEGISLATION PROVIDE SUFFICIENT INCENTIVE TO TRY THE NEW PROGRAM?

IT HAS BEEN STATED THAT THE MORTGAGE CREDIT CERTIFICATE PROGRAM PROVIDES AN ALTERNATIVE AND EQUAL METHOD OF ACHIEVING THE PURPOSES OF TAX-EXEMPT FINANCING PROGRAMS. WHILE BOTH PROGRAMS ASSIST HOMEBUYERS BY EFFECTIVELY REDUCING MORTGAGE INTEREST RATES, IT SHOULD BE CLEARLY UNDERSTOOD THAT TAX CREDITS ARE NOT AN EQUAL SUBSTITUTE FOR REVENUE BOND PROGRAMS. MOREOVER, AS IT IS DRAFTED, THE LEGISLATION REDUCES EVEN FURTHER THE COMPARABILITY BETWEEN THE TWO PROGRAMS.

THE QUESTION IS NOT WHETHER TAX CREDITS AND TAX-EXEMPT BONDS ARE EQUIVALENT PROGRAMS; THEY ARE NOT. THE IMPORTANT QUESTION IS WHETHER THIS DIFFERENCE MATTERS. WE BELIEVE THAT THERE ARE CRUCIAL DIFFERENCES IN THE TWO PROGRAMS WHICH WILL SIGNIFICANTLY AFFECT THE WILLINGNESS OF STATE AND LOCAL GOVERNMENTS TO TRY THE NEW TAX CREDIT OPTION.

TAX CREDITS WOULD PROVIDE ASSISTANCE TO HOMEBUYERS BY INCREASING THE AMOUNT OF INCOME THEY HAVE AVAILABLE TO PAY INTEREST COSTS ON A MORTGAGE. FOR THE PROGRAM TO WORK, THE BUYER MUST BE ABLE TO OBTAIN FINANCING. OTHERWISE, THE CREDIT IS OF NO USE.

MORTGAGE REVENUE BONDS, ON THE OTHER HAND, PROVIDE ASSISTANCE TO HOMEBUYERS BY OFFERING MORTGAGES WITH BELOW MARKET INTEREST RATES. MORTGAGE CAPITAL AND THE INTEREST RATE REDUCTION GO HAND-IN-HAND WITH THE CURRENT PROGRAM.

IT IS SUGGESTED THAT ACCESS TO CREDIT POSES NO SIGNIFICANT PROBLEM IN TODAY'S MORTGAGE MARKET, AND THAT STATE AND LOCAL GOVERNMENT FINANCING MAY NO LONGER BE NEEDED TO FILL GAPS LEFT BY THE PRIVATE MAKRET. BUT IN A RECENT DISCUSSION PAPER ON HOMEOWNERSHIP, THE U.S. LEAGUE OF SAVINGS INSTITUTIONS STATES THAT "THE PROSPECT FOR A SEVERE SHORTFALL OF CAPITAL IN THIS COUNTRY FOR THE COMING YEARS CASTS AN OMINOUS SHADOW OVER HOMEOWNERSHIP OPPORTUNITIES THROUGH THE REMAINDER OF THE 1980S." THE REPORT SUGGESTS THAT COMPETITION FOR CREDIT, ALONG WITH A LOW RATE OF SAVING, WILL SQUEEZE MANY WOULD-BE HOMEBUYERS OUT OF THE MAKRET.

WHILE TAX CREDITS MAY GIVE SOME FAMILIES THE INCOME NEEDED TO QUALIFY FOR A MORTGAGE, THESE BORROWERS WILL HAVE A DIFFICULT TIME COMPETING IN A TIGHT MARKET BECAUSE OF THE ADDED COST OF PROCESSING A LOAN WITH A CREDIT CERTIFICATE. MOREOVER, CREDITS WILL NOT WORK AT ALL IN MARKETS WHERE LENDERS HAVE EFFECTIVELY WITHDRAWN FROM MORTGAGE LENDING, AS WAS THE CASE IN MANY LOCATIONS DURING 1981 AND 1982. THE SAME IS TRUE FOR GEOGRAPHIC AREAS IN WHICH MORTGAGE LOANS ARE DIFFICULT TO COME BY, AS IN INNER CITIES AND RURAL AREAS.

WE BELIEVE THAT THE ABSENCE OF MORTGAGE FINANCING IN THE TAX CREDIT OPTION WILL, AT MINIMUM, LIMIT ITS EFFECTIVENESS IN SOME LOCATIONS AND DURING SOME PERIODS OF TIME. UNLESS STATE OR LOCAL AGENCIES ARE ABLE TO PROVIDE COMPANION FINANCING PROGRAMS, THE CREDIT PROGRAM MAY BE VIEWED AS A LESS ATTRACTIVE ALTERNATIVE.

ASIDE FROM THE QUESTION OF FINANCING, IF MORTGAGE TAX CREDITS AND MORTGAGE REVENUE BONDS ARE INTENDED TO BE EQUIVALENT PROGRAMS, THE PROPOSAL SEEMS TO FALL SHORT OF THIS GOAL. BOTH THE FACTOR FOR CONVERTING BOND AUTHORITY TO TAX CREDIT AUTHORITY AND THE TRANSITION RULES MAY FURTHER DIMINISH THE AMOUNT OF ASSISTANCE THAT WOULD BE AVAILABLE THROUGH THE NEW PROGRAM WHEN COMPARED WITH MORTGAGE BONDS.

THE LEGISLATION WOULD ALLOW HOUSING FINANCE AGENCIES TO CONVERT 14.35 PERCENT OF THEIR "UNUSED BOND AUTHORITY" FOR TAX CREDITS. IN OTHER WORDS, $100 MILLION IN UNUSED BOND AUTHORITY WOULD EQUAL $14.35 MILLION IN TAX CREDIT AUTHORITY. (NOTE, HOWEVER, THAT THIS $14.35 MILLION DOES NOT REPRESENT THE ACTUAL AMOUNT OF TAX CREDITS CLAIMED BY HOMEBUYERS, BUT RATHER EQUALS THE SUM OF THE MORTGAGE AMOUNT MULTIPLIED BY TAX CREDIT PERCENTAGE FOR EACH PARTICIPANT IN THE CREDIT CETIFICATE PROGRAM; THE ACTUAL AMOUNT OF ASSISTANCE RECEIVED BY TAXPAYERS WOULD BE LESS.)

THIS 14.35 PERCENT FOLLOWS FROM THE ASSUMPTION THAT MORTGAGE BOND-FINANCED LOANS BEAR EFFECTIVE INTEREST RATES ROUGHLY 15 PERCENT BELOW MARKET INTEREST RATES FOR EQUIVALENT LOANS. ALTHOUGH IT MAY SEEM STRAIGHTFORWARD, THERE IS NO GENERAL AGREEMENT ON THE QUESTION OF HOW LARGE AN INTEREST RATE REDUCTION REVENUE BOND PROGRAMS PROVIDE. THE ANSWER DEPENDS ON (1) ASSUMPTIONS ABOUT THE MORTGAGE RATE IN BOND PROGRAMS AND (2) THE DEFINITION OF "EQUIVALENT, MARKET RATE MORTGAGE LOANS."

A RECENT GAO ANALYSIS, FOR EXAMPLE, COMPARED THE MORTGAGE RATE ON BOND FINANCED LOANS WITH THE RATE ON FEDERALLY INSURED MORTGAGES, FINANCED WITH FEDERAL GUARANTEES. WE WOULD HARDLY VIEW

THIS AS A MEASURE OF MARKET RATES OF INTEREST. THE ANALYSIS ALSO APPARENTLY COMPARES LONG TERM, FIXED RATE, BOND-FINANCED LOANS WITH LOW DOWNPAYMENTS TO MORTGAGES WITH A WIDE RANGE OF TERMS—AGAIN, HARDLY EQUIVALENT MORTGAGES.

IT APPEARS THAT THE ONE AVAILABLE MEASURE OF MORTGAGE INTEREST RATES WHICH IS MOST COMPARABLE TO BOND PROGRAM RATES IS PROVIDED BY THE FEDERAL HOME LOAN BANK BOARD. THE BANK BOARD REPORT ON COMMITMENT RATES IS COMPREHENSIVE, EXCLUDES FEDERALLY BACKED MORTGAGES FROM ITS CALCULATIONS, AND ALLOWS A COMPARISON OF EQUIVALENT LOANS WITHOUT OUTSIDE SUBSIDIES AND BUYDOWNS. USING THIS SERIES, THE NATIONAL ASSOCIATION OF HOME BUILDERS HAS CONCLUDED THAT THE TRUE SPREAD BETWEEN INTEREST RATES IN STATE BOND PROGRAMS AND SIMILAR CONVENTIONAL MORTGAGES FROM JANUARY 1982 THROUGH JUNE 1983 WAS 21.6 PERCENT. UNLIKE THE GAO COMPARISON, THE HOME BUILDERS' ANALYSIS INCORPORATES THE ACTUAL EXPERIENCE OF STATE HOUSING FINANCE AGENCIES DURING THIS PERIOD.

ANOTHER AREA IN WHICH ASSISTANCE PROVIDED BY TAX CREDITS FALLS SHORT OF MORTGAGE REVENUE BONDS IS IN THE CASE OF AN ISSUER SUBJECT TO THE TRANSITION RULES. THE LEGISLATION IMPOSES TRANSITION RULES IN ORDER TO KEEP THE USE OF THE PROGRAM FROM GROWING MUCH BEYOND WHAT IS ANTICIPATED WITH MORTGAGE REVENUE BONDS; THE ULTIMATE AIM IS TO PREVENT HIGHER THAN EXPECTED REVENUE LOSSES.

WHILE WE UNDERSTAND THE NEED TO STAY WITHIN THE TAX LOSS PROJECTED BY THE JOINT TAX COMMITTEE FOR MORTGAGE BONDS (WHICH IS ALSO THE PROBLEM IN INCREASING THE 14.35 PERCENT CREDIT FORMULA), WE MUST POINT OUT THAT THE TRANSITION RULES CREATE ANOTHER DISINCENTIVE TO STATE AND LOCAL GOVERNMENTS TO TRY THE TAX CREDIT PROGRAM.

WHERE THE TRANSITION RULES ARE IN EFFECT, THEY DIMINISH THE AMOUNT OF ASSISTANCE THAT WOULD POTENTIALLY BE AVAILABLE THROUGH MORTGAGE BONDS ALONE.

5. WILL TAX CREDITS PROVIDE SIGNIFICANT ECONOMIC ADVANTAGES OVER MORTGAGE REVENUE BONDS?

AT PRESENT, STATE AND LOCAL GOVERNMENTS HAVE A PROGRAM IN PLACE WHICH HAS PROVEN EFFECTIVE OVER THE YEARS. OPERATING PROCEDURES ARE ESTABLISHED, AND FIRST TIME HOMEBUYERS ARE RECEIVING ASSISTANCE. WHAT, THEN, ARE THE ADVANTAGES OF CREATING A NEW PROGRAM?

ADVOCATES OF THE TAX CREDIT PLAN CLAIM THAT IT OFFERS ECONOMIC ADVANTAGES OVER MORTGAGE BONDS BY REDUCING FEDERAL REVENUE LOSS AND RELIEVING PRESSURE ON TAX-EXEMPT INTEREST RATES. CSHA BELIEVES THAT THESE CLAIMS GREATLY EXAGGERATE THE BENEFITS OF THE TAX CREDIT OPTION, BECAUSE THEY ARE BASED ON FAULTY AND OVERBLOWN ESTIMATES OF THE IMPACT OF MORTGAGE REVENUE BONDS.

THE CLAIM THAT THE PROGRAM CAN MATCH MORTGAGE BONDS IN MEETING NEEDS "BUT AT A FRACTION OF THE COST IN TAX EXPENDITURES TO THE FEDERAL GOVERNMENT..." IS INCORRECT. THIS CLAIM IS BASED ON A GENERAL ACCOUNTING OFFICE ANALYSIS, WHICH CONCLUDES THAT A TYPICAL BOND-FINANCED MORTGAGE MADE IN 1982 WILL COST ABOUT FOUR TIMES AS MUCH IN FEDERAL REVENUES AS IT PROVIDES IN INTEREST SAVINGS TO THE HOMEBUYER, OVER THE LIFE OF THE MORTGAGE.

CSHA REJECTS THE CLAIM THAT ADOPTION OF THE TAX CREDIT PROGRAM WILL PRODUCE LARGE SAVINGS OVER MORTGAGE REVENUE BONDS. THE

ALLEGATION BY GAO THAT BOND PROGRAMS ARE GROSSLY INEFFICIENT RESULTS FROM ESTIMATES WHICH (1) EXAGGERATE THE REVENUE LOSS FROM THESE BONDS AND (2) UNDERSTATE INTEREST SAVINGS. IN PART, THIS IS DUE TO ASSUMPTIONS ABOUT INTEREST RATES. THE COST ESTIMATE WAS DRIVEN UP BY THE FACT THAT GAO CHOSE TO STUDY A PERIOD OF ABNORMALLY HIGH INTEREST RATES. ON THE BENEFIT SIDE, INTEREST RATE ASSUMPTIONS INACCURATELY REFLECTED THE SPREAD BETWEEN BOND-FINANCED AND MARKET RATE MORTGAGES.

THE COST FIGURE PRESENTED BY GAO IS ALSO HIGH BECAUSE OF THE METHOD USED TO ESTIMATE IT. NO ONE CAN MEASURE EXACTLY HOW MUCH TAX REVENUE GOES UNCOLLECTED WHEN TAX-EXEMPT BONDS ARE ISSUED. WE CAN ONLY ESTIMATE THE AMOUNT, MAKING ASSUMPTIONS ABOUT THE WAY PEOPLE INVEST AND HOW THEY STRUCTURE THEIR HOLDINGS. THE METHOD USED BY GAO ASSUMES THE MAXIMUM POSSIBLE TAX LOSS FROM THESE BONDS, BY SUGGESTING THAT EVERY DOLLAR INVESTED IN TAX-EXEMPTS MEANS A DOLLAR LOST FROM FULLY TAXABLE INVESTMENTS. A MORE REALISTIC VIEW OF INVESTMENT PATTERNS WOULD PRODUCE A SUBSTANTIALLY LOWER COST ESTIMATE.

TAX CREDITS ARE ALSO TOUTED AS A WAY OF REDUCING THE AMOUNT OF BORROWING IN THE TAX-EXEMPT BOND MARKET, AND THEREBY LOWERING INTEREST RATES. AS IN THE CASE OF REVENUE LOSS, ESTIMATES OF THE EFFECT THAT THE LEVEL OF BORROWING HAS ON TAX-EXEMPT INTEREST RATES ARE, AT BEST, ROUGH APPROXIMATIONS OF HOW THE FINANCIAL MARKET WORKS. THE URBAN INSTITUTE STUDY OFTEN CITED ON THIS SUBJECT HAS BEEN CRITICIZED BY BOTH SUPPORTERS AND OPPONENTS OF REVENUE BOND PROGRAMS FOR OVERSTATING THE EFFECT ON INTEREST RATES.

EVEN THE TREASURY DEPARTMENT, IN TESTIMONY BEFORE A SENATE FINANCE SUBCOMMITTEE HAS ACKNOWLEDGED THAT IT USES A MUCH LOWER FIGURE IN ITS ESTIMATES OF THE EFFECT OF NEW TAX-EXEMPT ISSUES ON INTEREST RATES. THUS CLAIMS THAT TAX CREDITS—BY REDUCING THE VOLUME OF TAX-EXEMPT MORTGAGE BONDS—WILL HAVE A SIGNIFICANT EFFECT ON TAX-EXEMPT INTEREST RATES ARE HIGHLY EXAGGERATED.

A POSSIBLE BENEFIT OF THE TAX CREDIT PROGRAM IS THAT THE LEVEL OF BENEFITS CAN BE TARGETED TO DIFFERENT INCOME GROUPS BY A SLIDING SCALE FOR THE AMOUNT OF THE CREDIT. IT SHOULD BE NOTED, HOWEVER, THAT SUCH TARGETING HAS BEEN USED IN MORTGAGE BOND PROGRAMS, PARTICULARLY WITH HOME IMPROVEMENT LOANS. POSSIBLY, THE CHALLENGE OF THE CREDIT PROGRAM WILL RESULT IN EVEN MORE CREATIVE APPROACHES TO PROVIDING ASSISTANCE USING MORTGAGE BONDS.

CONCLUSION

IN SUMMARY, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, WE SUPPORT THE TAX CREDIT INITIATIVE AS A PROPOSAL. IF ENACTED, WE WOULD APPLY OUR EXPERIENCE TO TRY TO MAKE THE PROGRAM WORK TO HELP MORE FAMILIES ACHIEVE THE AMERICAN DREAM OF HOMEOWNERSHIP. AT THE SAME TIME, AS THE PRIMARY FINANCIAL INSTITUTIONS SERVING LOW AND MODERATE INCOME HOUSING NEEDS OVER THE PAST DECADE, WE CAUTION THAT THE PROPOSED PROGRAM IS MORE COMPLEX THAN IT MAY APPEAR IN THEORY. TREMENDOUS ENERGY AND RESOURCES WILL BE REQUIRED TO MAKE THE PROGRAM OPERATIONAL AND EVEN THEN, IT MAY NOT GENERALLY OFFER BENEFITS EQUAL TO THE PRESENT MORTGAGE BOND PROGRAM.

STATE HOUSING FINANCE AGENCIES APPROACH THIS NEW PROGRAM IDEA WITH AN OPEN MIND AND BELIEVE THAT IF ANYONE CAN MAKE IT WORK, WE CAN. BUT THE PROVEN ALTERNATIVE MUST BE RETAINED AS WELL. BEFORE WE TRY OUT THE NEW PROGRAM, CONGRESS SHOULD FIRST ELIMINATE THE DECEMBER 31, 1983 SUNSET ON MORTGAGE REVENUE BONDS.

STATEMENT OF WALLACE L. FORD, II, EXECUTIVE DIRECTOR, STATE OF NEW YORK MORTGAGE AGENCY, NEW YORK, N.Y.

Mr. **Ford**. Good morning. Mr. Chairman, my name is Wallace L. Ford, II. I'm executive director and chief executive officer of the State of New York mortgage agency, better known by the acronym SONYMA. I'm also chairman of the single family home ownership committee of the council of State housing agencies. And today I am testifying on behalf of the State of New York.

As my colleagues, I would just like to summarize my comments. And we have our complete testimony submitted to the committee review.

First of all, I would just like to commend the chairman for acknowledging the important role that State housing agencies must play to promote homeownership by low- and moderate-income households at a time when continued high interest rates have put homeownership costs beyond the reach of millions of Americans.

The First Time Homebuyers Assistance Act of 1983 also reflects an understanding of the importance of giving States flexibility in pursuing housing solutions which coincide with the housing and economic conditions, and resources within their boundaries. Homeownership the key to stable communities and neighborhoods is declining in this country. Between 1970 and 1980, the percent of homeowners nationwide decreased for the first time in 40 years. In New York, SONYMA has been addressing the housing needs of moderate income households, but the need is for more rather than less housing assistance in the State.

New York's primary goal is to insure there are mortgage assistance programs to provide the maximum feasible benefits to potential homebuyers in the State; particularly, first time home buyers and families purchasing homes in targeted distressed areas. With this goal in mind, two principal concerns arise regarding the ability of the tax credit proposal to achieve the desired objectives.

First is the issue of mortgage affordability. When a bank considers whether a prospective home buyer qualifies for a mortgage loan, the bank compares two dollar figures. One being the monthly payments under the terms of the mortgage. The other is the gross income; not the after-tax income of the borrower.

The second concern relates to the dollar value benefits flowing to home buyers in the State. It is being contended that the average subsidy provided to home buyers will be greater with mortgage tax credits than with mortgage revenue bonds. I would only call to the committee's attention the fact that in SONYMA's recent June 1983 bond sale we resulted with a mortgage rate of 9.9 percent while conventional mortgage rates averaged in excess of 13 percent. This translates into a benefit for participating home buyers of over 24 percent.

The additional concern we have has to do with the cost with respect to administration. And in that regard we would just like to again suggest that the retention of the mortgage revenue bond provisions of the Tax Act continue while these other alternatives are explored.

I would like to thank you, Mr. Chairman, as well as the members of the committee for the opportunity to comment on this act, and hope that my comments will be of assistance to the committee as it considers this legislation.

[The prepared statement of Wallace Ford II follows:]

soNYma STATE OF NEW YORK MORTGAGE AGENCY

TESTIMONY BEFORE THE COMMITTEE ON FINANCE OF THE

UNITED STATES SENATE

PRESENTED BY WALLACE L. FORD II,

EXECUTIVE DIRECTOR/CHIEF EXECUTIVE OFFICER

STATE OF NEW YORK MORTGAGE AGENCY

REGARDING S. 1598

THE "FIRST-TIME HOME BUYER ASSISTANCE ACT OF 1983"

September 13, 1983

260 Madison Avenue New York, New York 10016 (212) 340-4200

Mr. Chairman and Distinguished Senators,

Good morning. My name is Wallace L. Ford II. I am Executive Director and Chief Executive Officer of the State of New York Mortgage Agency -- better known by the acronym SONYMA. I am also the Chairman of the Single Family Homeownership Committee of the Council of State Housing Agencies. I am testifying today on behalf of the State of New York.

I would like to commend Senator Dole for acknowledging the important role that state housing agencies must play to promote homeownership by low and moderate income households at a time when continued high interest rates have put homeownership costs beyond the reach of millions of Americans. Senator Dole's bill -- S. 1598, the First-Time Home Buyers Assistance Act of 1983 -- also reflects an understanding of the importance of giving states flexibility in pursuing housing solutions that coincide with the housing and economic conditions and resources within their boundaries.

Homeownership -- the key to stable communities and neighborhoods -- is declining in this country. Between 1970 and 1980, the percent of home owners nationwide decreased for the first time in 40 years. In New York, SONYMA has been addressing the housing needs of moderate income households, but the need is for more rather than less housing assistance in the State. SONYMA's most recent bond sale will enable approximately 3,500 New York households to afford homeownership, but the demand for low-interest mortgages far exceeds the supply. During the past two months alone, SONYMA has received some 15,000 telephone calls inquiring about the mortgage program.

New York's primary goal is to ensure that its mortgage assistance programs provide the maximum feasible benefit to potential home buyers in the State -- particularly first-time homebuyers and families purchasing homes in targeted distress areas. With this goal in mind, two principle concerns arise regarding the ability of the mortgage tax credit proposal in S. 1598 to achieve the desired objective.

First is the issue of mortgage affordability. When a bank considers whether a prospective home buyer qualifies for a mortgage loan, the bank compares two dollar figures. One is the monthly payments under the terms of the mortgage. The other is the gross income -- not the after-tax income -- of the borrower. The mortgage revenue bond program significantly reduces one of those figures -- monthly payments. This enables a home buyer with lower gross income to qualify for a loan. In contrast, the mortgage tax credit would alter neither of the two critical figures. Monthly payments in most instances would be based on a market rate mortgage. And gross income, of course, would not be affected by the availability of a tax credit. Again, it has been our experience that banks and savings and loan institutions in New York simply do not take into account a borrower's after-tax income. Thus, the question arises as to whether the mortgage tax credit would enable households at the lower end of the income scale to afford mortgages.

The second concern relates to the dollar value of the benefits flowing to home buyers in the State. It has been contended that the average subsidy provided to home buyers will be greater with mortgage tax credits than with mortgage revenue bonds. But upon closer examination, this claim appears to be based upon a significant understatement of the benefit to homebuyers under the current program. The proposed tax credit benefits are based on an estimated tax-exempt bond benefit of 10 to 15 percent. Experience from SONYMA's recent bond sales resulted in an interest reduction benefit of approximately 20 percent. In fact,SONYMA's June 1983 bond sale resulted in a mortgage rate of 9.9 percent while conventional mortgage rates averaged in excess of 13 percent. This translates into a benefit to participating home buyers of over 24 percent.

New York has one additional concern with the mortgage tax credit proposal. As you know, the mortgage revenue bond program is self-supporting on the State level, and agencies such as SONYMA presently operate without State appropriations. In contrast, the implementation of mortgage tax credits would entail administrative costs which may have to be paid out of the State budget.

There are many alternative methods of meeting the variety of housing finance needs in the nation. Mortgage tax credits may be one possible way of helping to make home ownership a reality for most citizens. It is critical, however, that this new approach not be pursued at the expense of the mortgage revenue bond financing mechanism. As SONYMA described in detail during testimony before this Committee on May 13 of this year, the mortgage revenue bond program has achieved significant success in New York, as elsewhere. I urge your passage of the legislation to extend this important program.

In closing, I would like to thank Chairman Dole and the members of the Committee for the opportunity to testify on the First-Time Home Buyers Assistance Act of 1983. I hope that my comments will be of assistance to the Committee as it considers this legislation.

STATEMENT OF MICHAEL R. LANG, GENERAL MANAGER, PARK WEST CONSTRUCTION CO., COLORADO SPRINGS, COLO.

The **Chairman**. Mr. Lang.

Mr. **Lang**. Mr. Chairman, I'm Michael Lang, general manager of Park West Homes. I'm here with Bruno Pasquinelli, a principal in that company.

We've been in the primary homebuilding business for 26 years, and have actively serviced that market, and continue to service that market. And I have two comments on the proposed legislation.

First off, for the First Time Homebuyers Assistance Act to service the first time home buyer something is going to have to be done that that home buyer has the potential to make those payments. There is going to have to be some sophistication to the legislation to insure that the individual has the funds to diminish withholdings; IRS guidelines are going to have to be addressed. Otherwise, the payments won't be made.

The second point I would like to make is that to qualify this individual, HUD guidelines, Fannie Mae guidelines, et cetera, are going to have to be addressed, or that individual will never be allowed to make that purchase.

And I think these two technical aspects of the bill have to be addressed or the bill itself will never be successful.

Thank you, sir.

[The prepared statement of Michael Lang follows:]

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TESTIMONY OF MICHAEL R. LANG

GENERAL MANAGER PARK WEST HOMES

CONCERNING MORTGAGE TAX CREDIT BILL

GENTLEMEN:

Park West Homes is a privately held national building company engaged in developing and constructing on-site single and multi-family residential communities. Our targeted market is the entry-level buyer. The principals of Park West Homes have delivered in excess of 10,000 residential units during the past 26 years. We are currently operating in Colorado, Illinois and North Carolina and we will deliver in excess of 700 homes in 1983 with approximately 17% of our customers using State Mortgage Subsidy Bonds to finance their purchases. Park West feels that this type of mortgage financial assistance to homebuyers is a meaningful program which directs funding to insure the realization of the national priority of decent housing for all income strata.

The Mortgage Subsidy Bond Tax Act of 1980 and The First-Time Homebuyer Assistance Act of 1983 as proposed represent a continuing commitment to affordable housing. As an entry level homebuilder, Park West on a daily basis is required to make resource allocation decisions which ultimately determine the construction cost of our product. These decisions plus the land and overhead costs are key factors in determining what the sales price of our product must be. Park West has limited ability to influence these costs. The "Invisible Hand" through supply and demand is the prime mover, not Park West. Park West's efficiency or inefficiency, though only a small percentage of the costs, determines if we remain a viable entity in the market.

We are now in an era where the "Invisible Hand" is also determining the cost of money, the final key ingredient in the housing equation. When a conscious decision was made to free capital to go to its highest and best use, there was a corresponding decision to change the priority of industries dependent upon capital. The housing industry is a capital intensive industry. Purchasing a home is the largest single financial commitment that most people make. Building homes requires the commitment to allocate resources to the future. It is not a short-term decision and long-term capital has a tendency to be expensive.

As in all decisions there is usually a good or better way to achieve a goal. The Mortgage Subsidy Bond Tax Act of 1980 was a good solution. It facilitated homeownership for first-time homebuyers. It provided legislation which allowed private capital markets to allocate long-term funds at a lower cost to a targeted market segment. It encouraged the restoration of older existing housing as well as the formation of new communities.

But as in all good legislation there are inefficiencies. Administration costs money. Raising capital is expensive. That is why Park West Homes supports the First-Time Homebuyer Assistance Act of 1983. We feel that this proposed legislation retains the best of the old legislation while addressing known deficiencies and inefficiencies.

The current proposal in no way restricts issuance of Mortgage Subsidy Bonds as provided for in previous legislation. Rather it provides for the new option of a Mortgage Credit Certificate issued directly to the homebuyer. This certificate if used could be a much more efficient mechanism for allocating capital. Further, the proposed legislation incorporates the ability of targeting the impact rather than a single interest rate solution. Homebuyers are encouraged through current tax legislation to itemize deductions. Thus, there are limited additional costs to having a state agency issuing a W-2 representing the tax credit to the homebuyer. Administratively the costs of such programs will be less. In essence, the proposed legislation provides a simpler system while continuing to provide the mortgage assistance desired.

It must be argued that this proposed legislation has its administrative shortfalls also. For the Mortgage Credit Certificate to have a subsidy effect, existing HUD underwriting guidelines must be amended. Applicants must be screened for eligibility and borrower's withholdings modified to reflect the impact of credit. Additionally, private lenders and investors must be enlisted to participate in the program. Compliance will continue to require monitoring. All of these activities impose costs. But most of these costs are already being paid along with many other costs which potentially could be eliminated.

State and local governments have developed strong housing institutions. They are experienced in making decisions that relate to the public purpose envisioned by the current proposal. They should be retained in this roll. However, they are not necessarily efficient in raising capital or administering loans. Private lenders in the free capital market, given the proper guidelines for underwriting and the necessary security instruments, represent a more efficient mechanism. Good acts do not necessarily lead to efficiency. The "Invisible Hand" has been the cornerstone of efficient resource allocation in this country. The strengths of the current capital marketplace is freedom of choice. The Mortgage Credit Certificate represents a gentler intrusion into the capital marketplace while continuing to support a commitment to the American Dream of decent housing for all our citizens.

In summary, the First-Time Homebuyer Assistance Act of 1983 retains the best of the old while addressing a more efficient allocation of resources. It demonstrates a continuing commitment to the national priority of decent housing for all our citizens. It has its difficulties. Park West supports the proposed legislation as the best alternative in America's attempt to maintain a commitment of decent housing for all.

Mr. **Pasquinelli.** Mr. Chairman, I would like to just make a couple of points. We do operate in three States. I've had the unfortunate experience of operating for most of my time in the State of Illinois. And there are a couple of things that I would like to bring to your attention.

No. 1, I would like to have the credits issued by the State housing authority. Often times when these credits or revenue bonds or mortgages are made, if they are sifted through the financial institutions, often times the allocations are not made to the people but made to people that have private and individual interests that go beyond the scope of good intention.

The second thing I would like to bring to your mind is that during the transition of this program of mortgage credits that the State of Illinois not lose its allocation. We were unfortunate. We were one of the last States to use the mortgage revenue bonds through a quirk in the law.

And let me say, Senator, that in 1981 even though our mortgage revenue bonds came out and our mortgages were issued at 12.9 percent, that it did help our State and our economic problems. So even though we did not have the opportunity to use this money, please don't limit our allocation or penalize us for not having used it. We wanted it.

Our need could be evidenced by the last issuance of mortgage revenue bonds. We had commitments for $700 million, and we had an issuance of only $68 million. There is a lot of heat going on because poor people weren't given these mortgages.

But I think of all the people and all the commitments that were made. We need some sort of a program in our State, and probably for our country. So I endorse your mortgage credit program, but I also say, please, please, don't sunset this mortgage revenue bond program.

Thank you.

STATEMENT OF BLAKE CHAMBLISS, CHAIRMAN-ELECT, HOUSING COMMITTEE, AMERICAN INSTITUTE OF ARCHITECTS, WASHINGTON, D.C.

Mr. **Chambliss.** Mr. Chairman, my name is Blake Chambliss. I'm an architect in private practice in Grand Junction, Colo. We have a small practice serving three States—Colorado, Wyoming, and Utah—serving basically a rural constituency.

I'm here representing the American Institute of Architects. I'm chairman-elect of the AIA's housing committee, as well as a director of the Colorado State Housing Finance Authority.

The AIA supports the general thrust of S. 1598 on the condition that its approval be accompanied by an extension of mortgage revenue bonds beyond the 1983 sunset, without further restrictions on their issuance, that S. 1598 be in no way considered a precedent for changes in such tax provisions as the home mortgage deduction, and that certain provisions be added or revised to make the program more useful to current users.

We propose the following changes in the bill:

No. 1 consider tying tax certificates to taxable bonds issued in lieu of tax exempts because the program creates no mortgage capital. And in mortgage short communities like ours, that's important.

We believe the legislation may seriously underestimate the subsidy provided by mortgage revenue bonds, and, thus, the 14.35-percent exchange rate should be revised and looked at perhaps on the order of 20 percent.

Second, we need to clarify that mortgage or certificate holders are eligible for purchase of secondary mortgage market entities like Freddie Mac or Fannie Mae.

Three, provide a means for reimbursing issuers for their cost of administering the program.

Four, clarify that both State and local issuers may exchange bond authority for credit certificates.

Five, review transitional rules to make the program useful to those with low or no 1983 bond issues.

We hope, as you do, that S. 1598 will expand housing opportunities and choices for people throughout rural and urban centers. But they must be allowed to be administered flexibly to meet those changing and differing conditions in those areas.

Thank you. We have submitted a more detailed statement.

The CHAIRMAN. Thank you. Your statement will be made a part of the record.

[The prepared statement of Dean Blake Chambliss follows:]

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VIEWS ON S. 1598
THE FIRST-TIME HOMEBUYERS ASSISTANCE ACT OF 1983

STATEMENT OF
DEAN BLAKE CHAMBLISS, AIA
on behalf of
THE AMERICAN INSTITUTE OF ARCHITECTS

COMMITTEE ON FINANCE
UNITED STATES SENATE
September 13, 1983

My name is Blake Chambliss of the architectural firm of Chambliss Associates of Grand Junction, Colorado. I am a member of the Board of Directors of the Colorado Housing Finance Authority, and Chairman-elect of the Housing Committee of The American Institute of Architects (AIA). I am pleased to appear today on behalf of the AIA, and very much appreciate your invitation.

The AIA has long maintained a deep interest in national housing policies and programs. In fact the AIA first expressed its interest in an urban policy statement almost sixty years ago. We believe that mortgage revenue bonds have made a significant contribution to expanding homeownership opportunities for thousands of families who otherwise would have found the market closed to them and although we address our specific remarks to the substance of S. 1598, we would like to reiterate our support for mortgage revenue bonds as an important housing assistance tool--a fact recognized by the enormous bipartisan support they continue to enjoy.

The AIA wishes to commend you, Mr. Chairman, for developing S. 1598, the First-time Homebuyers Assistance Act of 1983. This measure represents an attempt to produce an innovative, cost-effective option for states and localities to use in meeting their housing needs. The AIA recognizes that the program of mortgage credit certificates (MCCs) established in the bill would offer a number of advantages to current issuers of tax-exempt, single-family MRBs, and to the housing industry in general. The program would expand the number of tools available to states and localities for homebuyer assistance, and would permit wide flexibility in its application to particular state and local housing needs. The proposal would also avoid the market timing problems of MRBs, and thus make it more responsive to countercyclical housing needs.

Despite these advantages, the AIA believes that the legislation raises several questions with serious implications for the future of federal tax policy as it relates to home buying and home ownership. Moreover, as currently drafted, the bill requires certain clarifications and revisions in order to make it a more workable option. As a result, the AIA support for S. 1598 is conditioned upon the committee's action to address these broad policy issues and to make the MCC program truly useful as an option.

S. 1598 constitutes a major departure from current tax policy in that it would introduce into the law a tax credit for mortgage interest, which would exist side-by-side with the home mortgage deduction. The AIA believes that the Committee should state clearly and emphatically that approval of this legislation is in no way meant to disturb or have policy implications for the home mortgage deduction.

S. 1598 has been introduced in the context of Congressional consideration of the extension of single-family, tax-exempt MRBs beyond their sunset date of December 31, 1983, and in fact assumes that a continuation will occur. The AIA believes that approval of S. 1598 should accompany, if not follow, adoption of an MRB extension. The extension should be permanent, but failing that should be for no less than five years. In addition, the extension should carry with it no further restrictions on the issuance of MRBs than already exist in current law. Otherwise, the MCC program will become a forced choice, in conflict with the aim of S. 1598 as originally articulated.

Now, I would like to suggest certain changes and clarifications in S. 1598 that the AIA believes would be necessary to assure a worthwhile MCC program. Our suggestions spring from the fact that if state and local issuers are to be expected to use MCCs as an alternative to mortgage revenue bonds then the certificates must be attractive and useful to them. This can be accomplished, not by making MRBs less attractive through additional restrictions, but by improving the provisions of S. 1598.

First and most important, issuers must have assurance that the MCCs they receive in exchange for their mortgage revenue bond authority have a subsidy value equal to the bonds they have exchanged. The certificates must provide an amount of assistance at least equivalent to that provided by MRBs. S. 1598 would permit issuers to develop MCC programs that would give eligible homebuyers a subsidy of from ten to fifty percent on their annual mortgage interest. However, issuers may not receive more than $14.35 million for each $100 million of bonds not issued. Analysis of the assumptions underlying the legislation indicates that this amount seriously understates the subsidy that mortgage revenue bonds provide. A closer approximation of the assistance value of credits to the value of mortgage revenue bonds would be $20 million worth of MCCs for every $100 million of bonds not issued.

Unless the committee takes steps to bring the amount of certificates into line with the subsidy value of mortgage revenue bonds to produce an even trade, issuers will have very little incentive to make use of the MCC option. An increase in the amount of MCCs that states and localities can receive for not issuing mortgage revenue bonds would be one means of handling the problem.

MCCs by themselves create no additional mortgage capital, but in fact rely on the availability of private capital provided by private lending institutions. Also, there is no assurance that private lenders will honor certificates in qualifying potential homebuyers. The use of certificates in connection with taxable bonds would address these problems.

To the extent that MCCs are not applied to any taxable bond mortgage, it is important for the Committee to clarify that mortgages subsidized through MCCs would be eligible for sale to secondary market entities such as the Federal National Mortgage Association in order to assure a free flow of credit, particularly in rural communities and areas that traditionally experience credit shortages.

The transition rules included in the bill raise another barrier to the MCC program's use. First, these rules would add significantly to the complexity involved in determining the amount of MCCs that states and their respective jurisdictions could receive in trade for their MRBs. Second, because they are based on previous issuance, the rules would not allow some states or localities to exchange all their current bond authority for MCCs, thus penalizing them for a conservative approach to bond issuance. These issuers are not likely to use a program that ties them to their past level of bond issuance and so restricts their future activity.

The legislation does not make clear that MCCs may apply to alternative mortgage instruments such as graduated payment mortgages, adjustable rate mortgages, and variable rate mortgages. If states and localities believe that their homebuyers are best served through programs that include these mortgage types, then the law should not prevent MCCs from reducing the costs of such mortgages. Finally, to reduce the complexity of administration and to insure that the program is in place as quickly as possible, the legislation should clarify that all current issuers, state as well as local, shall have the authority to exchange MRBs for certificates.

While much of the attention has been focused on the relationship of current issuers to the new proposal, some thought should also be given to the individuals who would receive the mortgage credit certificates,for they ultimately have the most important stake in the program's success. The Committee should make clear in its report accompanying the legislation that it expects issuers who participate in the program to inform eligible homebuyers of how they can use the certificates to qualify for private mortgages, particularly through adjustment of withholding rates. There should also be adequate opportunity for public comment on the establishment of any state or local program designed to use the MCCs. And care should be taken to insure that rural as well as urban areas are equitably served.

The **Chairman**. I would say in response to Mr. Lang's two points that we are working on those. I am advised by staff that they are aware of the problem, as you mentioned. And that it is an area—if it is going to be effective, it's going to have to address those two problems.

Unlike mortgage bond loans, mortgage credits can be obtained by an issuer and they can be stockpiled. That's another point that you raised about you might lose it and then in later years if sensible housing policy suggests such an approach with this feature insuring that the absolute amount of assistance is not reduced by delay. With the State's ability to deepen the subsidy to as much as 50 percent, is there any reason why bonds and credits shouldn't be restricted to families to below the median income?

I throw that out to anyone.

Mr. **Pasquinelli**. Well, housing is for everyone, Senator.

The **Chairman**. Well, the subsidies aren't for everyone.

Mr. **Pasquinelli**. Because a person makes over $25,000, he shouldn't——

The **Chairman**. Food stamps aren't for everyone.

Mr. **Pasquinelli**. Well, what you are doing is depriving people of the type of housing they want and incentives to earn the type of housing they want. I think it's important that we maintain a broad base and not limit it to a certain segment of the population. At least allow all people to afford housing. You can put certain restrictions on it.

The **Chairman**. I don't have any quarrel with that, but I think if we are looking—when this program was sold in the Congress, because we are going to help low-income families. Not many low-income families participate.

Mr. **Pasquinelli**. Well, I think it's first home buyers we are trying to help.

The **Chairman**. But if they have got a lot of income, they don't need any help from the Government. They are going to get their mortgage interest deduction. Nobody is going to try to remove that.

We are not in the business—don't you worry about the deficit? And all you people come here and want more money. I don't understand this.

Mr. **Pasquinelli**. I worry about the deficit but I also worry about——

The **Chairman**. Well, how much do you worry about it? It's going to be $600 billion in new debt over the next 3 years, and it's going to drive up interest rates. And you are in the business, and you ought to be worried about it. And you ought to be here beating us over the head for throwing away money in a mortgage bond program.

Mr. **Ford**. If I might respectfully interject, Mr. Senator. One of the things that I would suggest also that needs to be looked at is some concomitant economic benefits which occur with this housing program. We have not been able to——

The **Chairman**. You will get benefits from any subsidized program.

Mr. **Ford**. I beg your pardon?

The **Chairman**. We want the most efficient program. You are going to get benefits even though in a mortgage bond program 60 percent, according to the GAO, doesn't go to the home buyer. Somebody is going to benefit.

Mr. FORD. We would dispute with those GAO figures. But what I'm talking about is when a home is built or even when a home is offered for a resale, you have a number of, shall we say, ripple effects that occur with respect to the purchasing of furnishings, appliances, paint. There are people who work in those paint factories, people who pay capital gains taxes on the stock in those carpet factories.

The CHAIRMAN. I understand that.

Mr. FORD. All of those contribute to the Federal Tax Treasury, sir. And I would just suggest to you that the minimal impact on the Federal Treasury by the highest estimates that we have right now is something like $2 billion of losses to the Federal Treasury over the next 5 fiscal years does not begin to compare to the benefits that accrue to both local, State and Federal treasuries through both employment and also other types of purchases which take place simultaneous to the purchase of homes through our programs. That is under the mortgage revenue bond action.

The CHAIRMAN. I don't quarrel with that, but we have got a different problem. Everyone who walks into this committee has got one idea to spend another $1 billion. They say take it out of food stamps; take it out of medicaid; take it away from the poor people; don't bother us because we've got a big lobby and we are very effective, and we have got big packs, and we know how to use them.

But we have got a problem in this country and it is called the "deficit." And the President doesn't seem too willing to face up to it. The Speaker of the House said yesterday he wasn't going to do anything. We are trying to protect those who want to buy homes. And trying to protect those—not in your business, but in the private sector if the mortgage rates go back up again, there won't be any homes built even with these lush subsidy programs. And I hope we haven't reached the point where we are going to depend on subsidies rather than the private sector.

I've just left a meeting where they told me to come back and cut the budget. We have got homebuilders saying we want more subsidy.

Mr. PASQUINELLI. No. I think you have to encourage a feeling in the populace of the rights of property. And if you can do this—and this is one of the aims of your bill, of people buying houses; they acquire property rights. And with these property rights they have a feeling of responsibility. And with this feeling of responsibility you are going to reduce the deficit.

But if you don't have this feeling of responsibility, you can sit here and try and legislate ways of reducing the deficit and it is never going to work. There is more to homeownership than just a subsidy. We are not just giving away money. We are creating a place for families to live.

The CHAIRMAN. Everybody who comes in here has got the same speech.

Mr. PASQUINELLI. For me it's not a speech, Senator.

The CHAIRMAN. This program creates wealth and creates jobs. And, again, I don't quarrel with what you suggest. We don't have any money. We've got a debt of $1.4 trillion. The interest on that debt is $130 to $140 billion a year. We are going to create new debt in the next 3 years of $600 billion. And everybody comes in, oh, don't worry about $2 billion. That's nothing. And if everybody says don't worry about $2 billion, you are not going to be building any homes in 3 or 4 or years.

I guess the point is the administration doesn't want to do anything. They want to end it. They've had enough of this program. They can't afford it. That's what they say.

We believe that there is strong feeling in Congress that there ought to be some program. We are trying to find the most efficient program. We are trying to represent the taxpayers, but if the taxpayers don't want to be represented, why—they never do when it involves them. But we still have to represent them.

Mr. MILLSAP. Senator, we understand that State housing agencies are going to be asked to administer this tax credit program. We are prepared to try to implement it. However, our studies so far raise many questions about how it will work. We are ready to try to put tax credit certificates in place and see what they will do.

However, we have serious questions about the program's efficiency. We have serious questions about how it is going to function, and whether people will take advantage of it.

We are now providing long-term mortgage money. The tax credit program will not provide any money for anyone. As a result, we must ask: What will the tax credit certificate really deliver for people in the way of housing finance since mortgage capital is the critical need--the real problem for the country. I don't question your concern about the budget. I know you have got that job, and I don't envy you, Senator.

But on housing, we know what the need is facing us. I have a great deal of data documenting the severity of the situation. For instance, Arthur Young of the Census Bureau indicates that we are facing, in the 1980's, the biggest housing crisis in the whole damned history of the country. We've got to do everything we can. Our responsibility in the housing business is to supply that housing. If we don't give some assistance like we have been doing, we exacerbate the problem. We've proven how effectively we can function with the mortgage revenue bond program. I would acknowledge that it maybe isn't the most efficient program, but I would suggest to you we are at least twice as efficient as the Pentagon. Even the U.S. Treasury isn't altogether efficient about collecting its taxes either.

The CHAIRMAN. That's not a very good endorsement—to be twice as efficient. [Laughter.]

I guess my view is whether it is low-income housing or housing or whatever, it is all going to stimulate the economy. You don't have to have a $200,000 home to buy appliances. You can have a $40,000, $50,000, $60,000, or $80,000 home. But we shouldn't disregard the low income.

As I understand, the reason for this tax policy—in this committee by the 23d of September we are supposed to report out a bill to raise taxes—$73 billion. And there are not enough votes in this committee to report out a bill to raise $1 billion. So you say, oh, $2 billion doesn't make any difference. I mean we are trying to bring down the deficit.

It just seems to me that we ought to try to work together, as I think we will with a different interest. And some you can't satisfy. Some people just want all that money if they profit from it. In some States they would rather have the Federal Government spend it so they won't have to spend it.

But we are going to try to work out an efficient system and try to sell it to the President. I assume that if the Treasury says that they don't want the program, they would have at least cleared it with somebody at the White House. And maybe a veto can be overriden, but don't count on it. But maybe we can work it out.

Mr. DAVID SMITH. Senator we certainly share your concerns on the deficit situation. There is no question about that. But housing has taken more than its fair share of cuts compared to some of the other industries. And, you know, people don't pay taxes unless they are working. And we have to get people back to work. And our number one priority is to reduce the Federal deficit. And, certainly, once we get some stability, hopefully, in the financial world, we could put people back to work and produce housing for this country. So we are concerned. We are ready to work with you any way we can.

The CHAIRMAN. I understand you all are. And that's what the experts tell us. If we get the real rates down a couple of points, there would be a boom in this country you couldn't sustain. I mean you couldn't cope with it as far as housing, automobiles, and appliances. But, then, again, I only have one vote so it doesn't make any difference what I say.

But we are going to continue to try to reduce spending in this committee, and not just everything that sounds good; we may have to defer it for a while. So we will be working with all of you trying to figure out the best way to go.

And I think you all agree there is some urgency about getting it down, whether it's extended or whether it's a combination. I assume you have. December is coming around fairly soon. There's another recess in October. We are supposed to adjourn by Thanksgiving. And I would guess you would probably want this addressed before next year.

Mr. MILLSAP. That's correct, Senator. No question.

The CHAIRMAN. Most everybody says just put everything off until after the election.

Mr. FORD. It would certainly be a disservice to a number of people who are being able to buy homes under current programs.

The CHAIRMAN. Not facing up to the deficit. That's all the witnesses we have.

Thank you.

[Whereupon, at 11:23 a.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

STATEMENT OF SENATOR PETE V. DOMENICI ON THE FIRST-TIME HOMEBUYER ASSISTANCE ACT OF 1983 BEFORE THE SENATE FINANCE COMMITTEE

SEPTEMBER 13, 1983

Pete V. Domenici

MR. CHAIRMAN, I am very pleased to testify in favor of the First-Time Homebuyers Assistance Act of 1983. This bill is one of those very rare opportunities where good government in the form of cost efficiency, new federalism in the form of granting to states some added flexibility in meeting housing needs, and an opportunity to give low and moderate homebuyers more assistance are all benefits of this legislation. As if these three potential accomplishments aren't enough, this bill would also save the Treasury money. That translates into a more efficient use of taxpayers' dollars.

I have been concerned for a long time that more and more American families are being priced out of the housing market. This could not come at a more inopportune time. The "baby boom" generation will be in the prime homebuying ages of 25 to 45 during the 1980's. One and one-half million prospective first-time homebuyers will be entering the marketplace each year during the 1980's. FNMA has estimated that the demand for mortgages for the remainder of the decade will be approximately $1.6 trillion. The magnitude of these housing needs is a challenge to our housing policy and demands careful and creative legislation.

Interest rates, cost of homes and inflation have interacted over the years to create the affordability gap. For the past few years, two-salary families with sizable incomes have found themselves shut out of the home buying market because their disposable income has not kept up with housing prices.

We haven't always had an affordability gap. In fact, it used to be that low and moderate families could buy a typical new house if they wanted one. This isn't the case any longer. The 1950's and 1960's were ideal for home ownership. According to examples cited by the U.S. League of Savings & Loans, in 1956 the median family income for a household headed by an individual under 35 was just $4,700. A median-priced new home sold for $16,739. With a 25% downpayment and limiting monthly mortgage principal and interest payments to the standard 25% of income, the median-income family could easily qualify for the typical house. In fact, the family could have qualified for a house $1,137 more expensive and still stayed within standard budget norms.

By 1960, homeownership was even more affordable. The family could afford a $22,100 home which was 26% more costly than the median for 1960.

A broad base of affordability continued throughout the 1960's and we experienced a dramatic gain in the national rate of homeownership. These were the golden years of housing affordability and millions of Americans made the most of this opportunity.

The decade of the 1970's, by contrast, brought the first jolting aberrations to homeownership opportunity. Incomes doubled between 1970 and 1980, but housing prices tripled.

Inflation became a dominant distorting factor by 1977. Interest rates reached double digits for the first time in 1978. Median home prices skyrocketed by $16,000 between the beginning of 1977 and the end of 1978.

By 1979, the median-income household could not qualify to buy the typical new home at the interest rates and terms available in the conventional lending marketplace. The 1979 affordability gap was $4,000. In 1980, it reached $11,000 and by 1981, it exceeded $19,000.

Since then, the gap has narrowed and as of July 1983, the median income household still faced a $16,250 deficit between the cost of the house it could afford to buy and the median-cost new house the marketplace offered.

The gap is the reason why American home ownership is on the decline. This gap is the reason why Congress needs to look carefully for solutions to our housing needs. I am convinced that the option described in this bill is a step toward reversing this trend by addressing the widening gap between families aspirations and the realities of the marketplace.

The bill creates a tax credit for mortgage interest that can be used instead of, or in addition to mortgage revenue bonds. It grants to housing finance agencies throughout the country added flexibility. Under present law, housing finance agencies use the proceeds from the sale of tax-exempt bonds to purchase mortgage loans made by private lenders. Since the interest income on the bonds is tax-exempt, issuing agencies can offer a lower rate than comparable taxable bonds. The interest savings is passed on to home buyers in the form of below conventional mortgage market rates.

During economic times when interest rates are high I think the housing finance agencies have done an excellent job in bridging the housing affordability gap. The bill would give agencies a very important option that they can use in addition to mortgage revenue bonds.

The same state and local housing finance agencies which are currently allowed to issue mortgage revenue bonds would be permitted the option to issue refundable income tax credit certificates directly to first time homebuyers instead. The credit to the homebuyer could be set by the agency at any rate from 10 to 50 percent of the interest expense on the homebuyer's mortgage. The credit would continue for as long as that mortgage existed.

Because the credits can vary from 10% to 50% the lower income families who really need more of a subsidy will get it. On the other hand, moderate income families who only need a slight subsidy to qualify for home ownership will get the assistance they need to make the home ownership dream a reality. I believe the potential is there for a very efficient, well tailored program. I see the housing finance agencies playing a pivotal role in meeting America's housing needs.

I believe that this option, with its attendant flexibility will be a valuable tool to better target the low and moderate income families who really need this assistance in order to make home ownership possible.

In return for authority to issue the credits, the housing finance agencies would give up the right to issue an amount of mortgage revenue bonds equal to the amount of mortgages underlying the credits. The total amount of credits allowed would be tied to the amount of unused bond authority traded in.

An example best explains how this program would work: A housing finance agency with $200 million in authorized bond authority could elect to issue $100 million worth of mortgage revenue bonds using the present program and to trade-in $100 million in bond authority which could provide 2,200 homebuyers with tax credits equal to 15% of the interest on mortgages averaging $43,500; or it could help 1,100 homebuyers by issuing 30% credits for the same size mortgages; or it could decide to help 1,000 homebuyers by issuing 10% credits for $100,000 mortgages and 363 homebuyers with 30% credits for $40,000 mortgages.

The housing finance agencies would be free to elect each year and would be offered the same flexibility now available under the mortgage revenue bond program in packaging the credits with conventional, FHA, or VA financing.

In addition to flexibility, this bill offers the housing market stability. I believe these two advantages are necessary complements to the mortgage revenue bond program. Tax credits are not interest rate sensitive and would therefore be a stable housing subsidy that home builders and homebuyers could depend on.

Home builders in my state tell me that when interest rates drop rapidly the bond program doesn't help them sell houses. They are referring to the situation like we experienced in 1982. Interest rates declined rapidly after mortgage bonds had been issued at higher rates. This decline in interest rates left many states with bond proceeds that they could not lend out because the bonds offered a mortgage loan rate well above the then-current mortgage rate.

To use my state as an example, the New Mexico Finance Authority had money available at 12.12%, however, when the FHA rate dropped to 11% the mortgage bond money was no longer competitive. Yet, because many New Mexicans are low and middle income families, the 11% rate was still too high for them to qualify for homeownership. The tax credit program could fill this gap. This bill would help the people who really need the assistance and, at the same time, aid the home building industry.

Revenue impact estimates in this area are very difficult. However, it is estimated that this proposal could save 20% to 40% in foregone revenue and, at the same time, permit more housing subsidies.

I have received comments on S. 1598 from a number of New Mexicans. They like the idea that a mortgage credit certificate option will enable the New Mexico Mortgage Finance Authority to assist homebuyers regardless of interest rates. The people in New Mexico who reviewed S. 1598 raised a number of questions about the bill that have been mentioned in other testimony presented to the Committee. The following issues deserve careful attention:

Whether the 14.35% rate at which mortgage revenue bond issuers can trade-in bond issuing authority for mortgage credit certificate issuing authority is comparable to the present bond program. I will be interested to learn the results of a Congressional Budget Office staff review of this issue.

Whether private mortgage lenders will have adequate incentives to participate in the credit certificate option and will provide the necessary private mortgage funds.

Whether private mortgage insurers will be able to assess the risk of lending to, and insure mortgage loans to, borrowers with credits

Mr. Chairman I believe these concerns can be addressed by the Committee. The testimony given today by the Home Builders, the Realtors, the U.S. League of Savings & Loans is strongly in favor of the concept and the endorsements for the bill have been very encouraging. I urge the Committee to act quickly on this bill.

AMERICAN
BANKERS
ASSOCIATION

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20036

EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

September 19, 1983

The Honorable Robert J. Dole
United States Senate
Washington, D.C. 20510

Dear Senator Dole:

The American Bankers Association is pleased to submit this statement regarding S. 1598, the First Time Homebuyers Assistance Act, before the Senate Committee on Finance. As you are aware, the membership of our Association consists of approximately 90% of the more than 14,000 full service banks, many of which are a major provider of housing finance.

This bill, S. 1598, would permit State and local housing authorities to issue mortgage credit certificates (MCCs) entitling homeowners to Federal tax credits in lieu of financing low interest mortgage loans through tax-exempt mortgage revenue bonds. We support the use of MCCs and the provisions of this bill, which we feel would result in a more flexible and cost-effective way to provide a program of subsidizing home ownership. In fact, our Association would not oppose replacement of mortgage revenue bond financed mortgages with the use of the mortgage credit certificate embodied in S. 1598.

Although, our Association has taken no formal position on the use of mortgage revenue bonds, we have voiced our concern that the revenue loss to the U.S. Treasury from their issuance may be greater than the benefits provided to homeowners in the form of reduced monthly mortgage payments. It is our feeling that the mortgage tax credit is the more cost-effective between the two while at the same time increases the flexibility of administering a mortgage subsidy program through the appropriate State and local agency. In other words, we support S. 1598 because this subsidy approach to homeownership is more efficient and less costly to the U.S. Treasury than the existing program.

Sincerely,

Gerald M. Lowrie

83-87

SUBMITTED STATEMENT OF THE AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS TO THE SENATE FINANCE COMMITTEE ON S. 1598, THE "FIRST-TIME HOMEBUYER ASSISTANCE ACT OF 1983"

September 19, 1983

The AFL-CIO appreciates this opportunity to present its views in support of S. 1598, the "First-Time Homebuyer Assistance Act of 1983" which provides state and local housing finance agencies with an alternative option to the issuance of mortgage revenue bonds. A state or locality could elect, in lieu of all or part of the mortgage revenue bonds that it could issue under the law in a given year, to issue mortgage credit certificates directly to eligible homebuyers. A mortgage credit certificate could be used by the homebuyer to claim a tax credit equal to a specified percentage of the interest payable on the home mortgage.

The mortgage credit certificate program, thus, conceptually could achieve for first-time homebuyers the same savings in home cost benefits that is achievable through mortgage revenue bonds. At the same time, the reduction in issuance of tax-exempt mortgage revenue bonds avoids the loss of tax revenue on interest collected by high-income persons who generally are the purchasers of tax-exempt securities. To the extent that the volume of housing mortgage revenue bond issues is reduced, it can also reduce the upward pressure on interest rates in a municipal bond market that has become overcrowded.

The net effect on all interest rates, which must be felt in the mortgage sector, is also likely to be smaller because the federal government cost to accomplish the same effect as with mortgage revenue bonds should be less. The sale of taxable Treasury bonds to make up for the tax credits would involve less of a net (interest) cost than the loss of tax revenue on interest income received by purchasers of tax-exempt bonds who are in high income tax brackets. In addition, the expense of many individual bond issuances, which must be deducted from the proceeds in calculating funds available for mortgage loans, can be avoided.

For the foregoing reasons, the AFL-CIO endorses the tax credit option as an alternative to the issuance of mortgage revenue bonds. However, as long as there is a need for such housing subsidy, the amount of tax credits to be made available in lieu of a given amount of mortgage revenue bonds should be adequate to provide an equivalent aggregate amount of benefits for eligible homebuyers. The statutory factors to be established to achieve such an equitable result should be examined carefully before adoption. As indicated in a previous position statement regarding the extension of authority for mortgage revenue bonds, the AFL-CIO believes there is still a serious housing affordability problem with current mortgage interest rate levels and recommended the extension of the mortgage revenue bond authority for two years. During those two years, the total amount of housing assistance that would have been made available without adoption of S. 1598 should not be diminished through the availability for localities to use the tax credit approach in lieu of all or part of the mortgage revenue bond authority.

Subject to any modifications that may be necessary to assure observance of the above qualification, the AFL-CIO supports the enactment of the "First-Time Homebuyer Assistance Act of 1983."

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MISSOURI HOUSING DEVELOPMENT COMMISSION
STATE OF MISSOURI

September 30, 1983

4236 Lindell, Suite 303
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314-534-0264

Mr. Edgar R. Danielson
Senate Committee on Finance
SH 231
Washington, D.C. 20510

Dear Mr. Danielson:

On behalf of Mr. Wayne L. Millsap, I herewith submit to you the corrected statement of Mr. Millsap before the Senate Finance Committee on September 13, 1983.

In addition, enclosed, you will find the Executive Summary and complete testimony to be reprinted in the Record.

I am returning to you your original copy with corrections: Mr. Millsap's testimony is highlighted and the corrections made in red ink. Additionally, I am including a clean, typewritten copy of Mr. Millsap's comments only, to assist you in verifying the corrections.

If you should have any questions, please feel free to contact me.

Sincerely,

Mary Ann Moore
Intergovernmental Liaison

kp

cc Mr. Wayne L. Millsap
Mr. Thomas W. White

NATIONAL LUMBER AND BUILDING NLBMDA MATERIAL DEALERS ASSOCIATION

Septermber 29, 1983

The Honorable Robert Dole
Chairman, Senate Committee on
Finance
United States Senate
Washington, D.C. 20510

Dear Senator Dole:

The National Lumber and Building Material Dealers Association would like to submit to you and the members of the Senate Finance Committee our views and concerns on the legislation you recently introduced entitled the "First Time Homebuyer Assistance Act of 1983", (S. 1598). We respectfully request that this correspondence be included in the Committee's hearing record.

NLBMDA is a federated association representing twenty-six state and regional associations and over 10,000 lumber and building material dealers. A majority of these dealers operate family run and single community based small businesses, providing materials to both individual consumers and building contractors. The lumber and building material dealer serves as a key element in the housing industry, representing the merchant intermediary between the building material producers and the homebuilder. In fact, many lumber dealer operations are diversified to include wholly-owned building contractor and real estate developing companies. In 1983 the lumber and building material industry is expected to provide approximately $60 billion worth of material ranging from framing lumber to roofing products to the American housing industry and the American consumer.

Mortgage Revenue Bonds (MRB)

NLBMDA is pleased to give you our recommendations on S. 1598. Our industry, because of our strategic position as the provider of lumber and building materials, has been intricately involved in the general area of tax-exempt bond financing for the benefit of first time homebuyers. We support legislation in the House and Senate which eliminates the December 31, 1983 "sunset" provision placed, as a result of the Mortgage Subsidy Bond Tax Act of 1980, on Federal tax exemption for single family housing bonds. NLBMDA continues to support elimination of this bond "sunset" provision for two important reasons.

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First, NLBMDA recognizes that the tax-exempt, single-family mortgage revenue bond program serves an essential function by providing homeownership opportunities to qualified families who otherwise would not be able to afford a home. Secondly, NLBMDA views the mortgage bond program as a significant countercyclical home financing tool during times of extremely high conventional mortgage interest rates. The mortgage bond benefit was especially valuable during the recently ended housing slump. Between 1980 and 1982, in many localities, mortgage revenue bond financed housing was "the only game in town" as far as new housing construction was concerned.

Perhaps the most significant provision in S. 1598 is actually not included in the draft bill. This, of course, is the implied assumption in the legislation that the tax-exempt feature for single-family mortgage revenue bonds will be maintained beyond the current December 31, 1983 sunset date. Being practical business owners, lumber and building material dealers are true advocates of the philosophy of not altering an already proven and effective program. Notwithstanding legitimate, cost effective arguments surrounding the existing mortgage revenue bond program, one must recognize that these tax-exempt bonds do result in considerable housing construction and rehabilitation. Any housing proponent would be reluctant to shelve a program which is expected to generate over $16 billion for housing finance purposes.

Mortgage Credit Certificate (MCC)

Our continued support for the mortgage bond program however does not necessarily preclude our support for additional or alternative Federal first time homebuyer's assistance programs. NLBMDA avidly supports your efforts to make federal assistance in this area more cost effective. It is a disturbing fact associated with the existing mortgage revenue bond program that many millions of dollars which escape Federal government tax collection are used for non-housing related expenditures such as expensive bond selling procedures and legal fees, instead of being more directly utilized for assisting first time homebuyers. The mortgage credit certificate program envisioned in S. 1598 solves this major stumbling block by more effectively using Federal tax expenditures than the existing mortgage revenue bond program.

MCC Reporting

NLBMDA is also extremely supportive of the approach taken in S. 1598 which would require increased public reporting requirements on efforts by the state and local governments to assist first time homebuyers. Much of the uncertainty which is associated with the mortgage bond program is directly attributable to the lack of hard numbers, whether it be Federal tax expenditure losses, actual interest reduction assistance for homebuyers or other important statistics which might provide important policy setting information. Improved reporting and statistical accounting would provide Congress and housing proponents with the flexibility to increase or decrease Federal assistance on this area based upon hard, unquestioned facts.

MCC Refundability

NLBMDA supports the language in the draft legislation which would allow the holder of a mortgage credit certificate to receive a tax refund should the assisted homebuyer not have sufficient tax liability to take full advantage of the mortgage credit. This well-planned, refundable credit approach would ensure that the proposed assistance program would be attractive for and targeted to even lower income families than those who would otherwise be assisted under a non-refundable tax credit program.

The provisions in S. 1598 which would separate mortgage interest rate deductions from the mortgage tax credits taken by the assisted homebuyer in his individual tax return are also well conceived, we believe. Avoiding any "double dipping" abuses associated with a tax-related assistance program is a sound and laudable goal, especially during the existing Federal deficit crisis.

Upon analyzing the proposed legislation, NLBMDA has several recommendations which we feel would improve the proposal's effectiveness in providing help to first time homebuyers.

MRB/MCC Tax Credit Level

First, the Committee should carefully analyze the tax credit level currently set in the draft legislation at 14.35 percent, and determine if this level, which is based upon benefits associated with the existing mortgage revenue bond program, needs to be changed. Separate determinations have indicated that mortgage bonds reduce mortgage rates by more than the 14.35 percent level envisioned in the legislation. For example, using Federal Home Loan Bank Board statistics based on conventional rates, the National Association of Home Builders has estimated that a more accurate tax credit level should be set at 21 percent. NLBMDA urges the committeee to reevaluate this important factor and amend the legislation to make this crucial tax credit level 100 percent accurate based on the spread between conventional national mortgage rates and mortgage rate assistance provided under the mortgage revenue bond program.

Mortgage Capital Formation

NLBMDA is concerned that the newly-proposed mortgage credit certificate program, representing a credit program directly transferable from the Federal government to qualified first time homebuyers, does not effectively "create" new capital for mortgages. The existing mortgage revenue bond program does perform this particular housing capital formation function through the sale of tax exempt bonds in the investment markets. Without changing the basic thrust of the legislation which attempts to streamline Federal assistance to homebuyers and thereby reducing administrative and program costs now associated with the mortgage revenue bond program, NLBMDA recommends that the legislation be amended to permit Federally chartered secondary market agencies to buy home mortgages which are assisted by the mortgage credit certificate program. The adoption of this type of amendment would greatly assist in insuring mortgage liquidity, while at the same time resulting in some generation of mortgage capital to offset the reduction in production of capital when state housing authorities "trade in" mortgage revenue bond authority for mortgage credit certificate authority.

MCC Administration

NLBMDA strongly recommends that the legislation be amended to clearly designate the administration of the new mortgage credit certificate program to state and local housing finance agencies. These agencies have proven over the years to be highly qualified and effective in administering bond programs for both multifamily and single-family housing. State and local tax exempt housing bond volume this year is expected to exceed last year's volume of $15.76 billion. This sort of financing and housing administration talent and experience cannot be wasted. The legislation should be changed to incorporate and take advantage of these agencies' expertise in the extremely complicated and challenging field of providing assistance to first time homebuyers.

Conclusion

In summary, NLBMDA congratulates you, your committee and staff on your preparation of this truly innovative homebuyers assistance program. We recognize that your proposal, as drafted, represents an alternative to the existing tax-exempt, single-family mortgage revenue bond program and not a substitute. It is indeed refreshing to learn of a new housing proposal which is based on the theory that if the proposal is effective, it will "fly" on its own accord and merits. Too often the American housing industry is essentially forced by Congress and housing-related bureaucracies to accept a new housing assistance approach totally or be left out of any participation of the newly established program. We look forward to assisting you and the Committee in continuing to work out any and all problems which might become associated with this new, exciting program. We sincerely hope that the new mortgage credit certificate program becomes a successful tool in conjunction with the existing tax-exempt mortgage revenue bond program, in providing decent, safe and sanitary housing with a suitable living environment for qualified first time American homebuyers.

Respectfully submitted,

John M. Martin

John M. Martin
Executive Vice President

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August 30, 1983

The Honorable Robert Dole
Chairman, Finance Committee
United States Senate
SH-141 Senate Hart Office Building
Washington, D. C. 20510

Dear Senator Dole:

On behalf of the Association of Local Housing Finance Agencies (ALHFA), I would like to request permission to submit a statement to be included in the permanent hearing record on S. 1598, the "First Time Homebuyer Assistance Act of 1983". As a member of the Board of Directors, I am disappointed that the hearing scheduled for September 13, 1983 conflicts with ALHFA's first annual educational conference. Thus, no board member from the Association will be available to testify. However, we are extremely interested in your proposal and will be discussing it at our conference.

Thank you for your consideration of our request.

Sincerely,

Frank E. Smith
Housing Development Director

FES/NG/mjw
cc: Rod DeArment
Don Susswein